ASSESSMENT IN METROPOLITAN TORONTO

TRENDS AND SELECTED ISSUES

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THE MUNICIPALITY OF METROPOLITAN TORONTO

ASSESSMENT IN METROPOLITAN TORONTO

TRENDS AND SELECTED ISSUES

A Report Prepared For

The Sub-Committee on Economic Development

By

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The Municipality of Metropolitan Toronto

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EXECUTIVE SUMMARY

INTRODUCTION TO THE REPORT

This report dealing with assessment trends and selected issues is presented in three parts.

Part I of the report documents the trends in assessment growth in Metropolitan Toronto since 1954 with analytical emphasis on the last ten years to 1980. This part of the report presents assessment statistics by class of property for each of the municipalities in Metropolitan Toronto.

The assumption that the addition of commercial-industrial assessment in a municipality is always financially beneficial from a taxation perspective is examined in Part II of the report. Recent studies in the Regional Municipalities of Kitchener-Waterloo and Niagara revealed that assumed tax benefits were greatly diminished and, in some cases, nullified by increased costs associated with the new assessment. Therefore, a specific examination of the financial consequences of new assessment on Metropolitan Toronto municipalities was undertaken in this section of the report.

Part III of the report seeks to verify or refute the generally-held view that commercial-industrial property within Metropolitan Toronto is assessed and taxed at a much higher rate than is commercial-industrial property in the surrounding regions of Peel, York, and Durham.

It should be noted that the purpose of this report is to document historical changes in assessment data and consider selected issues. The issue of market value assessment and property tax reform is not considered in any substantive way in this document.

The principal findings of this report are presented in executive summary form on the following six pages.

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EXECUTIVE SUMMARY

PART I: AN HISTORICAL REVIEW OF ASSESSMENT TRENDS FOR THE MUNICIPALITY OF METROPOLITAN TORONTO AND AREA MUNICIPALITIES: 1954-1980

1954 to 1969

- Over the fifteen year period, 1954 to 1969, taxable assessment in The Municipality of Metropolitan Toronto grew by 120% (a compounded annual rate of 5.5%), increasing from $2,410,000,000 to $5,325,000,000.

- Exempt assessment grew at an annual compounded rate of 10% over this period to a figure of $1,246,000,000. This reflected the demand for tax exempt public facilities in an expanding urban community.

- Exempt assessment represented 19% of total assessment by 1969. Only 12% of this exempt assessment generated any payment in lieu of taxes.

- Scarborough, North York and Etobicoke attracted the majority of growth in the Metropolitan Toronto assessment base between 1954 and 1969.

- During this period, the assessment mix between the residential class and the commercial-industrial class of assessment in Metropolitan Toronto remained constant at a ratio of 57% residential and 43% commercial-industrial.

1970 to 1980

- The rapid rate of growth in Metropolitan Toronto's taxable assessment was not sustained during the interval 1970 to 1980. Between 1970 and 1980 assessment grew by 31% (a compounded annual growth rate of 2.8%), increasing from $5,554,000,000 to $7,296,000,000. This represents approximately one half of the annual growth rate of the previous period.

- The period 1975 to 1980 had a compounded annual growth rate of 1.7%, providing further evidence of diminishing growth trends.

- Towards the end of this period, as the assessment system in Metropolitan Toronto became more outdated and inequitable, assessment appeals were a contributing factor in accounting for slow growth in assessment figures.

- In contrast to the previous period, exempt assessment during the years 1970 to 1980 increased by only 18%, from $1.3 billion to $1.6 billion, or at half the annual growth rate of taxable assessment.

- In 1980, exempt assessment accounted for 18% (1969=19%) of the total property assessment base, and 27% (1969=12%) of the exempt assessment generated revenue in terms of payments in lieu of taxes. Changes in provincial legislation during the seventies concerning financial assistance to municipalities provided this increase in payments in lieu of taxes.

- Because exempt assessment represents such a high proportion of the assessment base in Metropolitan Toronto, a further study of the composition of exemption by levels of government, including an examination of payments in lieu of taxes, should be undertaken.

- The mix in classes of assessment during this period showed a trend towards an increased proportion of commercial and industrial assessment. In 1970, the metropolitan assessment base was comprised of 57% residential and 43% commercial-industrial. The figures for 1980 showed ratios of 55% residential and 45% commercial-industrial.

- The City of Toronto and the Borough of Scarborough both showed assessment growth rates increasing in the 1975 to 1980 period compared with the 1970 to 1975 period. The remaining municipalities continued the trend to slower growth in taxable assessment.

- Projections based on historical trends suggest that assessment growth rates for Metropolitan Toronto will continue to decline but should remain positive for another decade.

- Historical trends in assessment growth may have little value for forecasting future assessment changes. Historical growth figures for assessment were generated basically from new development and did not reflect added values of renovations, conversions and other improvements. Future assessment growth will be more a function of redevelopment and a modified assessment process to reflect renovations, conversions and other improvements.

- Variability in assessment growth becomes potentially more troublesome when growth trends are small. A fluctuation of 1% or 2% from the trend (not an uncommon occurrence in the past) when assessment growth is small, may actually result in an absolute loss of assessment. This would necessitate a mill rate increase just to generate the previous year's level of expenditure and service.

- The upward pressure on the mill rate is further increased in situations where there is little or no growth in an area municipality's assessment base, but the assessment mix is shifting from commercial-industrial to increased reliance on residential assessment. In this case the residential mill rate has to be increased also to make up for the 15% premium formerly provided by the commercial-industrial assessment. Several metropolitan municipalities have experienced this phenomenon.

PART II: THE FINANCIAL IMPACT OF AN INCREASED INDUSTRIAL ASSESSMENT BASE FOR A MUNICIPALITY WITHIN METROPOLITAN TORONTO

- Commercial and industrial assessment growth is encouraged by municipalities not only because it creates jobs and produces other economic benefits, but also because it generates more in property tax revenue per dollar of assessment than does residential assessment.

- New commercial-industrial assessment generates additional tax dollars for a municipality but may result in additional costs to the municipality which could increase costs to the existing taxpayers instead of providing a tax benefit to them. This situation has been documented in other Ontario municipalities.

- The possible failure to generate "tax benefits" from new assessment, when it occurs, is attributed to three principal factors.

    - The municipality that has expanded its tax base relative to the other municipalities is required to contribute a larger share towards the operation of the Metropolitan Government and the School Board.

    - The increased assessment may result in some loss of revenue from provincial grants that are assessment-based. These grants may go down as assessment goes up.

    - The municipality may have to spend money to accommodate the new development. This may take the form of capital spending or result in increased ongoing operations and maintenance costs.

- An addition of $20 million in commercial-industrial assessment in each municipality, in turn, in Metropolitan Toronto was simulated. This essentially represented an investment worth approximately $110 million at market value. Assuming no significant local servicing costs, all the municipalities showed a net financial benefit from the new assessment being located within their boundary.

- All municipalities recorded a monetary benefit from the new assessment even when it is not located in their own municipality. However, the simulation showed that each municipality gained most if the assessment was located within its municipal boundary.

- New assessment should provide considerable financial benefit to metropolitan taxpayers regardless of where it is located within the metropolitan boundary. However, the location of this assessment has specific financial implications for each of the area municipalities.

PART III: COMPARABILITY OF INDUSTRIAL ASSESSMENT AND PROPERTY TAXATION IN METROPOLITAN TORONTO AND SURROUNDING AREAS

- Factors influencing the location of industry appear to be situational. One factor that is found on most lists of locational criteria is property taxes.

- There is a generally held view that commercial-industrial property within Metropolitan Toronto is taxed at a much higher rate on average than is industrial-commercial assessment in the surrounding municipalities in the regions of Peel, York and Durham.

- Similarly, it appears that commercial-industrial properties in the City of Toronto bear a greater proportion of property taxation than do similar properties in the other area municipalities within Metropolitan Toronto.

- The data that are available support the generally held views about the comparative levels of industrial taxation in the Toronto area. The statistics show that commercial-industrial properties in Metropolitan Toronto are taxed at twice the rate per square foot of comparable properties in the regions of York, Peel and Durham.

- The statistics also show that the City of Toronto taxes industry about 33% more per square foot when compared to the average for all Metropolitan Toronto municipalities.

- A number of explanations exist to explain these findings:

    - Metropolitan Toronto provides higher levels of municipal services (as measured by spending per capita) than do the surrounding regions. The higher the level of service, the higher the general level of property taxation, and the higher the level of commercial-industrial taxation.

- Assessment anomalies, whereby the commercial-industrial class of property is assessed at a different percentage of market value when compared to the residential class, exist among the municipalities within Metropolitan Toronto, and between the Metropolitan Toronto municipalities and those municipalities surrounding Metropolitan Toronto. In Metropolitan Toronto, the relative weight of industrial assessment is 160% greater than it is for single-family residential. The ratio for the selected municipalities surrounding Metropolitan Toronto shows that industry is assessed on average only 40% higher than single-family residential when both are compared to market values.

- The per capita provincial grant system is based only on resident population. Because of the large commuter and transient population that is served by Metropolitan Toronto, this grant system does not provide Metropolitan Toronto with the level of grant support that is enjoyed by most other municipalities in the province. This results in higher property taxes in general to pay for the municipal services, and higher property taxes per square foot on commercial-industrial property when compared with surrounding regions.

- Inasmuch as the taxes (per square foot of building) on industrial property in the Municipality of Metropolitan Toronto reflect higher levels of municipal servicing, then nothing is untoward in the assessment and taxation system.

- If assessment is to remain neutral in terms of industrial location among municipalities, then any reform measures for assessment and taxation must be province-wide. The industrial and commercial classes of assessment in all municipalities must be adjusted to the same percentage of residential assessment when both are related to market values.

- Metropolitan Toronto should pursue policies with respect to grant reform that ensure less reliance on per capita formulas and more emphasis on measures of need for distribution of grants as reflected in expenditures made or required.

PART I

AN HISTORICAL REVIEW OF ASSESSMENT TRENDS FOR THE MUNICIPALITY OF METROPOLITAN TORONTO AND AREA MUNICIPALITIES 1954 - 1980

1. PURPOSE AND SCOPE

The purpose of this paper is to document the change since 1954 in assessment by class of property and municipality within Metropolitan Toronto. Particular emphasis is placed on the last ten years as the basis for making inferences about the likely future magnitude and direction of assessment change in The Municipality of Metropolitan Toronto.

Part 1 of this study consists of four components. In the introduction, the nature of assessment and the manner in which assessment is used to apportion costs, as outlined in the Assessment and Municipality of Metropolitan Toronto Acts, is discussed. In order to provide a more complete understanding of the prevailing trends in assessment for 1970-1980, a summary of Metropolitan Toronto's assessment environment from 1954 to 1969 is presented on a five year interval basis. A more detailed analysis of assessment by class and changes in assessment growth ratios for 1970-1980 is provided on a year-to-year basis. Finally, future trends in assessment growth are discussed with reference to past trends.

Assessment figures for the period 1970-1980 are values used for local taxation. Prior to 1970, assessment data refer to that used for the apportionment of the metropolitan levy. Since there is a discontinuity in the data series in 1970, assessment values using both definitions are provided for that year.

2. INTRODUCTION

2.1 THE ASSESSMENT ACT

The Assessment Act defines the relationship between types of properties and how they are to be assessed (e.g. exempt property and property liable for business assessment). The Act also establishes the agents involved in the assessment process, the rights to appeal and review one's own assessment and other items related to the legal structure of the assessment process.

According to the Assessment Act, land (here meaning both land and buildings) is to be assessed at its market value. Market value as stated in the Act, RSO 1980[1], Section 1 8 (2) is "the amount that the land might be expected to realize if sold in the open market by a willing seller to a willing buyer". Currently, however, assessed values are not equivalent to market values. Instead, the existing assessment system is based on an estimated value derived from the consideration of factors such as present use, location, rental value, replacement value and sale value of the property.

In addition to the assessment on land and buildings, municipal taxable assessment in Ontario also includes business assessment. Section 7 of the Assessment Act states that ".... any business mentioned or described in this section, shall be assessed for a sum to be called "business assessment" to be computed by reference to the assessed value of the land so occupied or used by him." For example, wholesalers and financial institutions have a business assessment equal to 75% of the property assessment as do retail chains. Manufacturing has a business assessment equal to 60% of property assessment.

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1. Revised Statutes of Ontario, 1980.

Industrial and commercial properties, therefore, have two assessment components; the realty assessment which applies to the building and the land upon which it is situated, and the business assessment which is a designated percentage of the assessed realty value of the land (as specified in the Act). Both assessments are subject to taxation.

2.1.1 The Role of the Province in Assessment

Until January 1, 1970, the property assessment process was conducted by local government. In 1970, the provincial government assumed responsibility for property assessment, although the setting of mill rates and the collection of taxes remained a local municipal function. Provincial intervention in local property assessment was motivated by a desire to standardize and reform the assessment system in Ontario, to achieve uniformity and equity in the treatment of property owners throughout Ontario.

As part of the province's takeover of property assessment, all existing assessments were frozen at their 1970 values in order to introduce a reassessment program which was to have been completed by 1973 and implemented on January 1, 1975. The reassessment program was to have determined the market value of every property, as opposed to the composite value which underlies the present assessment system. No reassessment or property tax reform measures have been introduced in Metropolitan Toronto to date. Consequently, property assessment in the Municipality of Metropolitan Toronto is still based upon reassessments completed in 1954 and 1955 which made use, for the most part, of 1940 values.

2.1.2 Section 63 - Equity of Assessment Within a Municipality

There are inherent flaws with the present assessment system that result in inequities of assessment within and among municipalities.[1] The major criticism levelled against the property tax system (as opposed to the property tax itself) is that the assessed values of properties have not been updated (some are still based on 1940 property values) and thereby do not reflect the full market value of the property.

Assessed property values were frozen throughout the province in 1970, even though the values frozen did not relate to a common base year. This action served to perpetuate inequities that already had been identified. When municipal assessors determined property values in earlier years, standard appraisal criteria were not employed in every municipality, and adjustments to some properties, while not to others, were made by assessors. Failure to update property values coupled with progressive levels of urbanization has resulted in a situation where older properties now tend to be under-valued and newer properties are over-valued. The consequences of rapid increases in inflation have not been distributed uniformly among classes of property which further distorts the assessed values.

Inequities entrenched in the assessment system promote further inequities in the provincial grant system and for local cost-sharing of regional and school board requisitions.

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1. The Association of Municipalities of Ontario, Response to the Report of the Commission on the Reform of Property Taxation in Ontario, April 1977, p.9.

In light of these and other criticisms of the present property assessment system, market value assessment has been proposed as a solution. "As a device for achieving equity within classes of property, market value is recognized as the most satisfactory of the alternative methods of property valuation."[1]

In recognition of the present inequity and non-uniformity in assessment values, the province has encouraged the use of Section 63 of the Assessment Act (R.S.O. 1980, formerly Section 86). This provision provides municipal councils with an option in between the present system and market value assessment.

Market value assessment, as mentioned above, equalizes assessment for properties within classes and among classes. Under Section 63 reassessment, property assessments within a class are corrected but the total proportion of assessment in each property class does not change so that the share of property taxes collected from each class remains constant.

Currently, the Municipality of Metropolitan Toronto, in conjunction with the area municipalities, is reviewing the implications of the use of Section 63 reassessment procedures. Part 111 of the report presents some of the implications of the use of Section 63 in Metropolitan Toronto.

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1. Ibid., p.8.

2.1.3 Exempt Assessment

All property that is exempt from taxable assessment is specified in Sections 3, 4 and 6 of the Assessment Act. Section 3 of the Act outlines in detail all those properties categorized as exempt. In general these properties include: lands or property belonging to the federal, provincial and municipal governments, religious institutions (e.g. churches, seminaries and cemeteries), educational institutions, philanthropic and charitable institutions, public institutions (e.g. hospitals and libraries), roads and highways, historic sites and certain property belonging to telephone and telegraph companies. According to Section 4, religious property used for recreational purposes is exempt from municipal taxes, but not from school taxes and local improvement rates. Similarly, Section 6 exempts all property belonging to the Navy League of Canada from municipal taxes, but not from school taxes and local improvement rates.

2.2 THE MUNICIPALITY OF METROPOLITAN TORONTO ACT

2.2.1 Apportionment Of Regional And School Board Levies

The Municipality of Metropolitan Toronto Act outlines the legal powers and responsibilities of the Metropolitan Council and defines the relationship between The Municipality of Metropolitan Toronto and the area municipalities. The Act specifies the method to be used for apportionment of the metropolitan levy (expenditures). Section 214 of the Act outlines the method of apportioning estimated current annual expenditures of the Metropolitan Corporation and the school board to each municipality. The amount levied against the area municipalities "shall be apportioned among the area municipalities in the proportion that the whole rateable property in each area municipality bears to the whole rateable property in the Metropolitan Area, according to the last revised assessment rolls".[1]

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1. The Municipality of Metropolitan Toronto Act, 1979 - Section 214-4.

The taxable assessment of each municipality is adjusted to account for provincial taxation and grant policies when used for apportioning metropolitan and school board costs. For example, payments in lieu of taxes received from the Province of Ontario are converted to assessment equivalents for purposes of apportionment. These adjusted taxable assessment figures were used as the basis for the analysis for the period 1954 to 1969. However, the taxable assessment of the area municipalities is used in the analysis of the period 1970 to 1980.

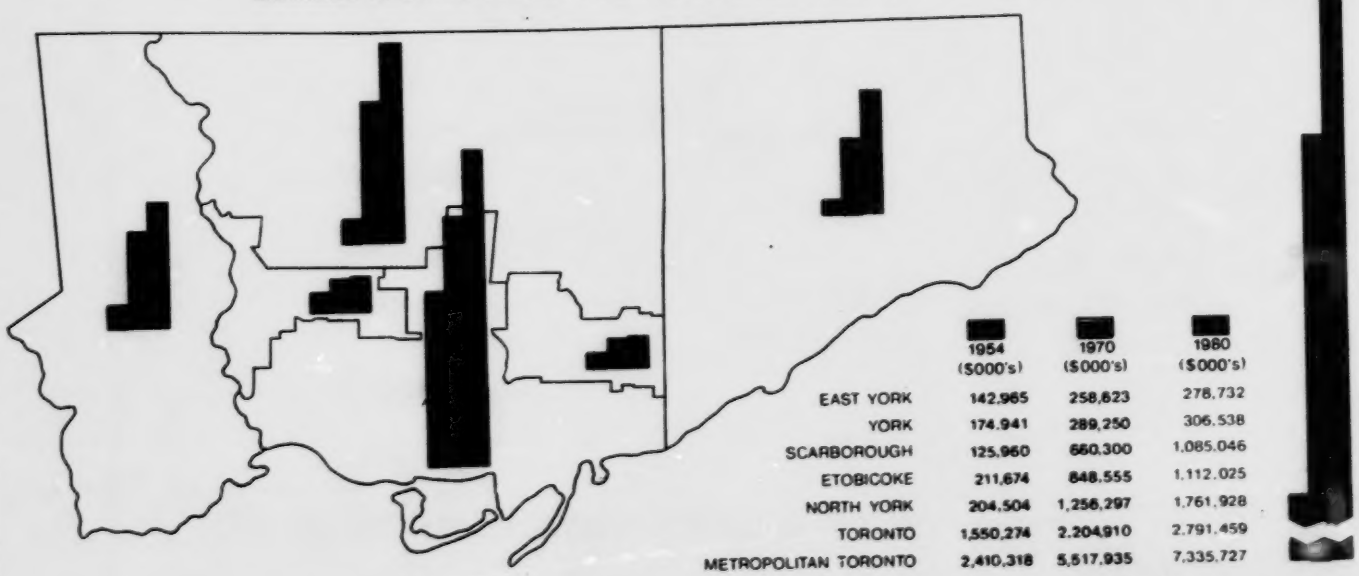
3. SUMMARY OF ASSESSMENT GROWTH IN METROPOLITAN TORONTO AND THE AREA MUNICIPALITIES: 1954-1969

3.1 INTRODUCTION

The property tax along with provincial grants, licenses, user fees, and other non-tax items constitute the revenue base for municipalities. Of these three sources of revenue, the property tax is the most important to local municipalities for the following two reasons. Firstly, the property tax generates the largest amount of local revenue. Secondly, the property tax is the basic mechanism assuring fiscal accountability, local autonomy, and budgetary capacity.

This section presents the trends and changes in the assessment base in Metropolitan Toronto and its area municipalities during the period 1954 to 1969. Some preliminary insight of the growth in taxable assessment for Metropolitan Toronto and the area municipalities during the entire period to 1980 is provided by a review of Map 1 below. Before delving into the 1970 to 1980 period of study, an overview of the assessment environment which prevailed throughout the years 1954 to 1969 is provided.

THE MUNICIPALITY OF METROPOLITAN TORONTO
TAXABLE ASSESSMENT BY AREA MUNICIPALITY 1954, 1970 AND 1980



	1954 ($000's)	1970 ($000's)	1980 ($000's)
EAST YORK	142,965	258,623	278,732
YORK	174,941	289,250	306,538
SCARBOROUGH	125,960	660,300	1,085,046
ETOBICOKE	211,674	848,555	1,112,025
NORTH YORK	204,504	1,256,297	1,761,928
TORONTO	1,550,274	2,204,910	2,791,459
METROPOLITAN TORONTO	2,410,318	5,517,935	7,335,727

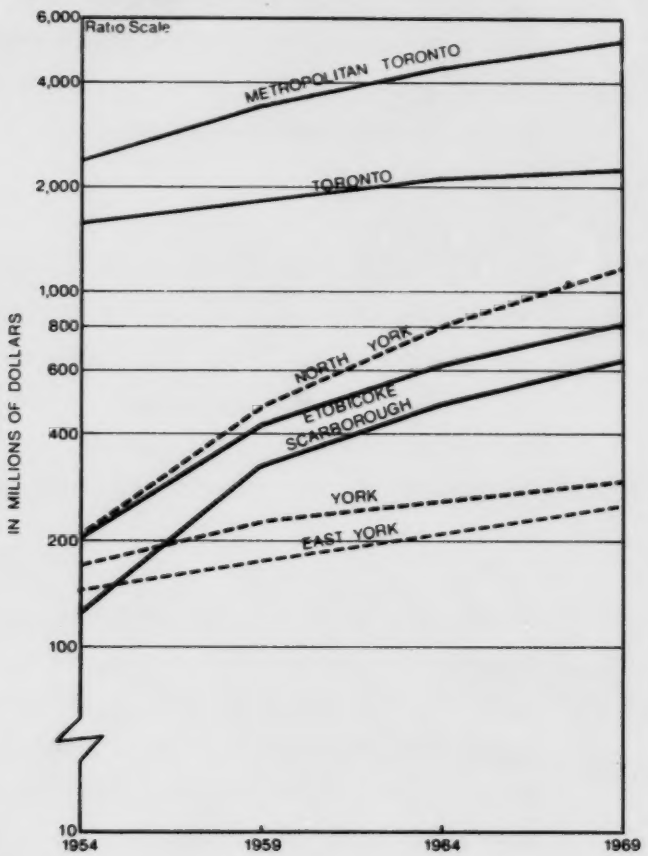
3.2 METROPOLITAN TORONTO TAXABLE ASSESSMENT: 1954-1969

3.2.1 Growth in Taxable Assessment

Since its inception in 1953, Metropolitan Toronto has experienced a dynamic growth rate in its assessment base.[1] Between 1954 and 1959, Metropolitan Toronto's taxable assessment base increased by 44% from $2.4 billion to $3.4 billion, as shown in Graph 1,

GRAPH 1

TAXABLE ASSESSMENT METROPOLITAN TORONTO AND AREA MUNICIPALITIES FOR THE YEARS 1954 TO 1969



1. See Appendix for absolute figures for Metropolitan Toronto's assessment base 1954-1980.

highlighting the rate of development occurring during the early years. However, development was not the only cause of high growth in assessment. In 1954 and 1955, a reassessment of properties in Metropolitan Toronto produced substantial increases in the valuation placed on existing properties.

The tempo of development for the subsequent five year period between 1959 and 1964 slowed down somewhat as reflected in a 26% increase in Metropolitan Toronto's taxable assessment base.

A similar rate of growth was registered in the subsequent five years, although growth for this period also showed a decline from previous periods. Metropolitan Toronto's assessment base expanded a further 21% between 1964 and 1969. Over this entire fifteen year time frame, taxable assessment grew by 120%, increasing at a compounded annual rate of 5.5%.

3.2.2 Residential and Commercial-Industrial Assessment Mix

Changes in the proportion of the two major classes of taxable assessment over the fifteen year period were small. Residential and commercial-industrial assessment, as a percentage of taxable assessment for Metropolitan Toronto, remained relatively constant. The stability of the ratio for Metropolitan Toronto as a whole is shown in Graph 2.

In 1957 (the first year in which data were separated) residential assessment provided 57% of total taxable assessment, while commercial-industrial assessment represented the remaining 43%. Identical disaggregations of assessment categories were registered in both 1964 and 1969. However, Table 1 does show a small but undeniable shift to commercial-industrial assessment at the expense of residential assessment over the entire period to 1980.

In contrast, considerable fluctuation has occurred in the assessment mix within individual municipalities which is apparent from Graph 2 and is analyzed further in Section 3.4.3 of this report.

GRAPH 2

COMMERCIAL AND INDUSTRIAL ASSESSMENT AS A PERCENT OF TAXABLE ASSESSMENT METROPOLITAN TORONTO AND AREA MUNICIPALITIES FOR THE YEARS 1959 TO 1980

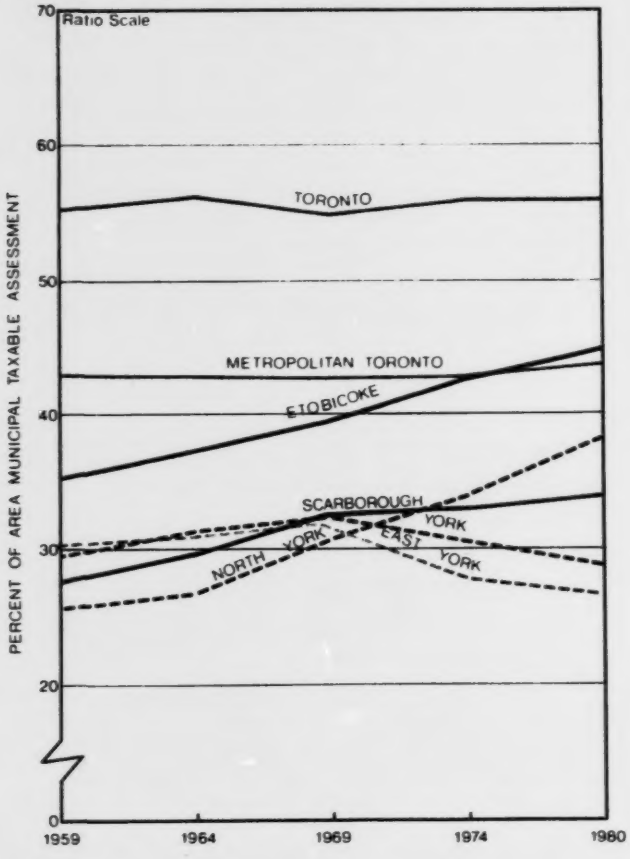


TABLE I
THE MUNICIPALITY OF METROPOLITAN TORONTO
ASSESSMENT BY CLASS
VALUE AND PERCENT COMPOSITIONS
1959 - 1980

Year	Residential Assessment	% of Taxable Assessment	Commercial-Industrial Assessment	% of Taxable Assessment	Taxable Assessment
			($000's)		
1959	1,967,862	57	1,505,188	43	3,473,050
1964	2,514,234	57	1,870,132	43	4,384,365
1969	3,051,001	57	2,273,994	43	5,324,995
1970*	3,190,828	57	2,422,193	43	5,613,021
1970*	3,148,218	57	2,369,717	43	5,517,935
1971	3,269,374	56	2,579,777	44	5,849,151
1972	3,323,761	56	2,652,044	44	5,975,805
1973	3,499,599	58	2,550,535	42	6,050,134
1974	3,565,078	57	2,684,799	43	6,249,877
1975	3,634,907	56	2,817,712	44	6,452,619
1976	3,692,943	55	2,988,410	45	6,681,353
1977	3,753,952	55	3,081,474	45	6,835,426
1978	3,877,263	55	3,144,137	45	7,021,400
1979	3,958,628	55	3,212,209	45	7,170,837
1980	4,057,370	55	3,278,357	45	7,335,727

Sources: 1954 - 1969 figures: Don Richmond and P.S. Ross & Partners, Metroplan: The Financial Structure of Metropolitan Toronto, February 1975, p.118.
(from assessments for Metropolitan Levy)

1970 - 1980 figures: Area Municipal Financial Statements (from assessments for Local Taxation)

* There is a discontinuity in the data series in 1970 therefore the data were presented on both bases.

3.3. METROPOLITAN TORONTO EXEMPT ASSESSMENT: 1954-1969

3.3.1 Exempt Assessment

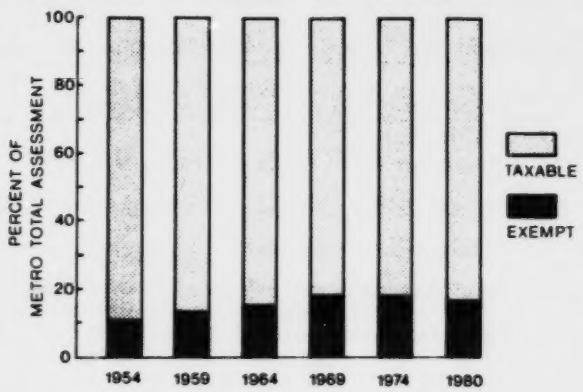
Owners of exempt properties according to the Assessment Act are not required to pay property taxes to municipalities in which they are located. In 1954, the total value of exempt assessment was $304

million. This figure grew to $496 million in 1959 and to $782 million by 1964, representing respective five year increases of 64% and 58%. By 1969, exempt assessment was valued at $1,246 million, a 59% increase during the latter five years.

As a percentage of total assessment, exempt assessment gradually increased from 11% in 1954 to 19% in 1969, as shown in Graph 3 and Table 2. The absolute value of exempt assessment increased by 310% over the fifteen year period, representing an annual compounded increase of approximately 10%, while the comparable growth in taxable assessment was 5.5%.

GRAPH 3

TAXABLE AND EXEMPT ASSESSMENT RATIOS
METROPOLITAN TORONTO
FOR SELECTED YEARS 1954 TO 1980



3.3.2 Payments in Lieu of Taxes

A substantial amount of taxable assessment is forfeited by exempted properties. All levels of government have properties that are exempt from property taxation. In order to compensate the Metropolitan Corporation and the area municipalities for assessment foregone from exempted properties, the federal and provincial governments pay grants known as payments in lieu of taxes to municipalities. Municipal exempt properties produce no revenue.

However, as shown in Table 2, while exempt assessment increased from 11% to 19% of total assessment during this fifteen year period, capitalized payments in lieu of taxes decreased from 15.6% to 11.8% of exempt assessment. This suggests that either the federal and provincial payments in lieu of taxes decreased in proportion to the value of their exemptions, or that a greater proportion of the total exemptions were municipal properties which produced absolutely no revenue (or both). A further study on the composition of the exemptions by level of government, including an examination of the payments in lieu of taxes, should be undertaken to explain the reasons for this trend.

TABLE 2
THE MUNICIPALITY OF METROPOLITAN TORONTO
EXEMPT ASSESSMENT AND PAYMENTS IN LIEU
CAPITALIZED TO REFLECT EQUIVALENT ASSESSED VALUES
SELECTED YEARS: 1954-1969

Year	Exempt Assessment	As a % of Total Assessment	Payments In Lieu Capitalized	PIL as a % of Exempt Assessment	PIL as a % of Total Assessment
1954	$ 304,677,849	11	$ 47,662,435	15.6	1.7
1959	496,006,781	13	65,928,880	13.3	1.6
1964	782,205,902	15	79,948,681	10.2	1.5
1969	1,246,233,807	19	147,114,664	11.8	2.2

Source: Don Richmond and P.S. Ross & Partners, Metroplan: The Financial Structure of Metropolitan Toronto, February 1975, Table 3.5, p. 122. (From Assessments for Metropolitan Levy)

The capitalized value of payments in lieu of taxes indicates the equivalent taxable assessment that would be necessary to generate the revenue received from payments in lieu of taxes. It is clearly shown in Table 2 that payments in lieu of taxes, in fact, are paid on only a small portion of the value of exempt assessment. In 1954, only 15.6% of exempt assessment produced any municipal revenue through payments in lieu (the highest contribution throughout the 1954-1969 period). Essentially, this implies that payments in lieu of taxes generate only a fraction of the total revenue that would have been produced by a like amount of taxable assessment.

When considerable growth in taxable assessment is occurring, the consequences of growth in exempt assessment is somewhat masked. As growth in taxable assessment slows, exempt assessment and payments in lieu of taxes become more important as potential sources of municipal revenue.

3.4 AREA MUNICIPALITIES TAXABLE ASSESSMENT: 1954-1969

3.4.1 Area Municipality Growth in Taxable Assessment

Throughout the period 1954-1969, a pronounced trend in assessment growth was apparent. Much of the fast growth in the Metropolitan Toronto assessment base occurred outside of the City of Toronto and the two Boroughs of York and East York. Nevertheless, in absolute terms these three municipalities showed consistent assessment growth which is reflected in the overall metropolitan increase. The growth trend is depicted in Graph 1 where the slope of the line is an accurate indication of taxable assessment growth rates. That is, the steeper the curve, the greater the growth rate. In particular, Scarborough, North York and Etobicoke attracted the majority of growth in the Metropolitan Toronto assessment base between 1954 and 1969.

From 1954 to 1959, Scarborough increased its assessment base by 159%, North York had a 132% increase, and Etobicoke had a 107% expansion in its assessment base. Meanwhile, the City of Toronto's assessment base grew by 18% over this time frame, York's by 30% and East York's by 21%.

Assessment growth rates for the municipalities dropped during the period 1959 to 1964 relative to the previous period, but still remained considerable. The City of North York registered the highest growth in assessment with a 62% increase, while Scarborough and Etobicoke expanded at 46% and 31% respectively.

For the period 1964 to 1969, the growth rate experienced by North York still remained highest at 46%. During this period Scarborough expanded its taxable assessment base by 31% and Etobicoke's base increased by 27%. In this five year period, East York had a growth of 22% in taxable assessment, which represented an improvement over the 18% of the previous period. Meanwhile, the City of Toronto and York registered minor decreases in growth rates when compared with the previous time frame, down from 10% to 9% and 12% to 10%, respectively.

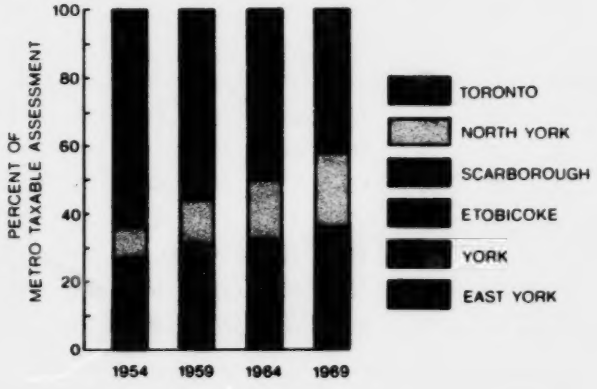
3.4.2 Area Municipality Assessment as a Proportion of Total Assessment in Metropolitan Toronto

The proportional breakdown of the area municipalities' contribution to the Metropolitan Toronto taxable assessment base is illustrated in Graph 4. This graph shows the drop in the City of Toronto's proportion of the Metropolitan Toronto assessment base while at the same time it highlights the surge in suburban growth.

The assessment base of the City of Toronto, as a proportion of the total Metropolitan Toronto assessment base, decreased from 66% to 40% over the fifteen year period. On the other hand, North York's proportion increased from 9% to 15% and Scarborough's increased from 5% to 11%. Both York's and East York's proportions of metropolitan assessment showed some decline before attaining a stable proportion of 5%. These changes are reflected in the calculations of metropolitan and school costs for which each municipality is responsible.

GRAPH 4

AREA MUNICIPALITY TAXABLE ASSESSMENT AS A PERCENT OF TOTAL TAXABLE ASSESSMENT FOR SELECTED YEARS 1954 - 1969



3.4.3 Area Municipality Residential and Commercial-Industrial Assessment Mix

While the residential and commercial-industrial assessment mix remained unchanged for Metropolitan Toronto at 57% residential and 43% commercial-industrial for the period 1954-1969, the area municipalities, with the exception of the City of Toronto, displayed a shift away from residential assessment towards increased commercial-industrial assessment. During 1959-1964, most of the area municipalities increased their commercial-industrial assessment ratios by 1%, while Scarborough and York experienced a 2% increase, as is illustrated in Table 3.

TABLE 3
THE MUNICIPALITY OF METROPOLITAN TORONTO
PERCENTAGE COMPOSITION OF TAXABLE ASSESSMENT
BY CLASS AND AREA MUNICIPALITY
1959 - 1980

Year	East York		Etobicoke		North York		Scarborough		Toronto		York	
	Res	C-I	Res	C-I	Res	C-I	Res	C-I	Res	C-I	Res	C-I
1959	70%	30%	63%	37%	74%	26%	72%	28%	45%	55%	70%	30%
1964	69	31	62	38	73	27	70	30	44	56	68	32
1969	68	32	60	40	69	31	67	33	45	55	66	33
1970*	69	31	58	42	69	31	67	33	45	55	67	33
1970*	69	31	58	42	69	31	67	33	44	56	67	33
1971	67	33	57	43	66	34	66	34	44	56	66	34
1972	69	31	56	44	65	35	66	34	44	56	67	33
1973	71	29	57	43	67	33	67	33	47	53	69	31
1974	72	28	57	43	66	34	67	33	45	55	69	31
1975	72	28	55	45	64	36	66	34	45	55	69	31
1976	72	28	55	45	63	37	66	34	43	57	69	31
1977	72	28	55	45	63	37	65	35	43	57	70	30
1978	72	28	55	45	63	37	65	35	43	57	70	30
1979	73	27	55	45	63	37	66	34	43	57	70	30
1980	73	27	55	45	62	38	66	34	44	56	71	29

Legend: Res = Residential C-I = Commercial-Industrial

Sources: 1959 - 1969 figures: Don Richmond and P.S. Ross & Partners, Metroplan: The Financial Structure of Metropolitan Toronto, February 1975, pp. 120 and 126-31. (From assessment for Metropolitan Levy)

1970 - 1980 figures - Area Municipal Financial Statements (From assessment for Local Taxation)

* There is a discontinuity in the data series in 1970, therefore the data were presented on both bases.

In the subsequent five years from 1964 to 1969, North York increased its commercial-industrial assessment mix by 4% - the largest shift registered by any area municipality during this time. Scarborough experienced a 3% shift and Etobicoke and York both recorded 2% increases in commercial-industrial assessment mixes, while East York showed a 1% increase. On the other hand, the City of Toronto displayed a 1% decrease in its commercial-industrial assessment mix over the previous period.

3.5 AREA MUNICIPALITIES EXEMPT ASSESSMENT: 1954-1969

The high rates of growth in the suburban municipalities were accompanied by large increases in the amounts of exempt property and ensuing losses in real assessment. Much of this exempt assessment related to school properties and other government facilities required in a developing urban environment.

Between 1954 and 1959, Scarborough's exempt assessment increased by 209% and Etobicoke's by 120%, as is shown in Graph 5 and Table 4. The growth rates in exempt assessment for the other area municipalities during this time period were notable as well. North York showed an increase of 49%, York 46%, Toronto 38% and East York 37%.

TABLE 4
THE MUNICIPALITY OF METROPOLITAN TORONTO
GROWTH IN EXEMPT ASSESSMENT BY AREA MUNICIPALITIES
FOR PERIODS 1954-1959, 1959-1964, 1964-1969

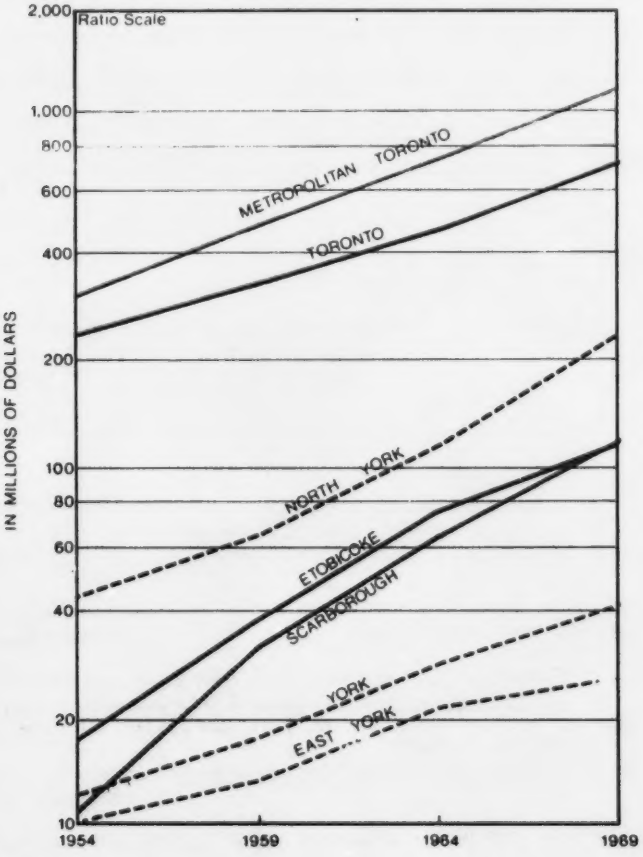
Municipality	1954-59	1959-64	1964-69
East York	37.2%	57.0%	21.5%
Etobicoke	119.8	97.8	56.7
North York	49.2	78.7	103.7
Scarborough	209.4	108.7	82.2
Toronto	38.1	43.9	48.1
York	46.1	62.0	48.3
Metro	62.8	57.7	59.3

Source: Appendix

During the 1959-1964 period, Scarborough still had the highest growth rate in exempt assessment, but the growth was only half the growth rate registered during the 1954-1959 period. Etobicoke as well experienced some decrease in its growth rate, falling from 120% to 98%. North York during this time frame displayed a growth rate of 79% in exempt assessment over its 1954-1959 figure. The remaining area municipalities also recorded substantial gains in their exempt assessment growth rates, averaging 57.7% for all of Metropolitan Toronto.

GRAPH 5

EXEMPT ASSESSMENT METROPOLITAN TORONTO AND AREA MUNICIPALITIES FOR THE YEARS 1954 TO 1969



By 1969, North York's exempt assessment growth rate had surpassed Scarborough's. The former experienced a 104% growth rate during 1964-1969 while the latter showed an increase of 82%. There was a general "evening out" in the growth rates of exempt assessment in the other area municipalities, with the exception of East York which showed a marked decrease over its 1959-1964 growth rate.

4. SUMMARY OF ASSESSMENT GROWTH IN METROPOLITAN TORONTO AND THE AREA MUNICIPALITIES: 1970 -1980

4.1 METROPOLITAN TORONTO TAXABLE ASSESSMENT: 1970-1980

4.1.1 Growth in Assessment

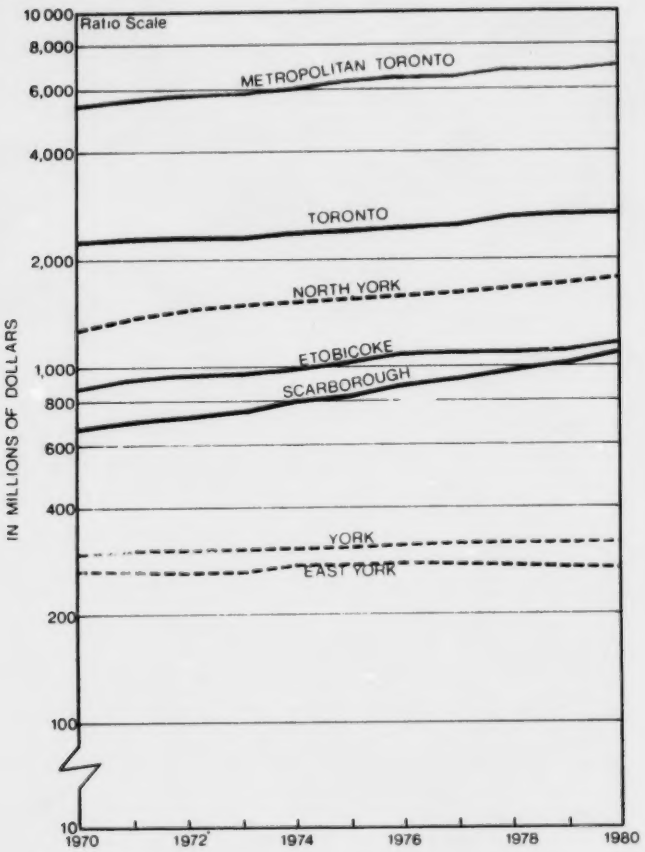
The rapid rate of growth in Metropolitan Toronto's assessment over the period 1954 to 1969 was not sustained during the interval 1970-1980. The deceleration in growth evident towards the end of the sixties continued into the seventies. Metropolitan Toronto's taxable assessment base in 1980 reached just over $7.2 billion, representing an increase of 31% over the 1970 figure of $5.5 billion.

This represents an annual compound growth rate of 2.8% per year. This figure, when compared with the 1954-1969 compound growth of 5.5%, represents approximately one half of the previous period's rate of annual assessment growth.

The generally smoother curves in Graph 6, when compared with the steeper curves in Graph 1, highlight the drop in the growth rate during the period 1970 to 1980. The greatest slow-down in growth was registered between 1971 and 1972 when taxable assessment dropped from 6% to 2.1% (see Table 5). The first half of the decade, 1970-1975, had a five year growth rate of 16.2%, or 5% less than the rate of 21.5% for the period 1964-1969.

GRAPH 6

TAXABLE ASSESSMENT METROPOLITAN TORONTO AND AREA MUNICIPALITES FOR THE YEARS 1970 TO 1980



The second half of the 1970's produced even further declines in growth in taxable assessment. The growth in Metropolitan Toronto's assessment base for the five year period 1975 through 1980 was 13%. Minor reversals in this declining trend for assessment were recorded in 1976 and 1978, but overall, diminishing growth was evident during this time frame. The growth in assessment for the year 1980 was only 1.7%.

TABLE 5
THE MUNICIPALITY OF METROPOLITAN TORONTO
ANNUAL GROWTH RATES FOR TAXABLE ASSESSMENT
FOR METROPOLITAN TORONTO AND AREA MUNICIPALITIES
1971 - 1980

Year	East York	Etob-icoke	North York	Scar-borough	Toronto	York	Metro
1971	2.7%	6.5%	9.2%	7.1%	4.5%	2.9%	6.0%
1972	1.3	3.1	2.9	2.8	1.5	0.1	2.1
1973	-1.1	0.5	3.0	2.2	0.6	-0.3	1.2
1974	4.3	4.4	5.4	8.0	0.2	1.3	3.3
1975	0.6	4.7	3.4	5.0	2.6	0.9	3.2
1976	-0.4	2.2	2.1	5.7	0.5	-1.0	3.5
1977	-0.2	1.8	2.4	4.4	2.1	0.9	2.3
1978	0.1	1.2	1.7	4.5	3.8	0.3	2.7
1979	0.0	1.8	2.4	5.3	1.4	0.5	2.1
1980	0.3	1.5	2.1	5.9	1.8	0.1	1.7

Source: Area Municipal Financial Statements: 1970-1980 (From assessment for Local Taxation).

It is important to note that a significant amount of assessment loss, in this latter period, resulted from successful assessment appeals. The number of assessment appeals has increased as the assessment system in Metropolitan Toronto has become more outdated and inequitable.

4.1.2 Residential and Commercial-Industrial Assessment Mix

Metropolitan Toronto's assessment classes showed more change between 1970 and 1980 than was observed during the period 1954 - 1969. Residential and commercial-industrial assessment classes, as a percentage of total taxable assessment, show a long term trend to an increased proportion of commercial-industrial assessment. In

1970, the assessment base was comprised of 57% residential and 43% commercial-industrial. Ten years later, in 1980, the breakdown was 55% residential and 45% commercial-industrial. These trends are apparent in the previous presentations of Table 1 and Graph 2.

During this period, the residential component of the assessment base was highest in 1973 at 58%. This fact coincides with the last apartment boom experienced in Metropolitan Toronto that collapsed in 1973 - 1974. Data for the past seven years have shown no indication that residential taxable assessment is likely to recover to its previous proportion of total assessment.

4.2 METROPOLITAN TORONTO EXEMPT ASSESSMENT: 1970-1980

4.2.1 Exempt Assessment

Analysis of exempt assessment for the years 1970 to 1980 reveals quite an erratic trend. Over the eleven years, exempt assessment grew by 18%, from $1.3 billion in 1970 to just under $1.6 billion by 1980. Appreciable increases in exempt assessment occurred in 1972, 1973, 1974, and 1976, as is shown in Table 6. The other years registered very insignificant increases and some decreases.

Unlike the growth of exempt assessment between 1954 -1969 which outpaced the growth in taxable assessment, exempt assessment during 1970 - 1980 increased at just over half the rate of taxable assessment. This is probably a reflection of a maturing urban environment, where public facilities are basically in place.

Because of this reduced rate of growth, exempt assessment decreased from 19.3% of total assessment in 1970, and in 1980 represented 17.8% of Metropolitan Toronto's total assessment base. Assessment and property tax reform will be necessary to effect further substantial reductions in exempt assessment.

4.2.2 Payments in Lieu of Taxes

The equivalent taxable value of exempt property is difficult to determine because of the definition of a property's assessment class, i.e. should the property be taxed according to the residential or the commercial-industrial rate? For the purpose of this report, the capitalized value of payments in lieu are compared with the total value of exempt assessment to approximate the proportion of exempt assessment that produces some revenue. The equivalent value of exempt assessment is calculated by applying the average mill rate to payments in lieu of taxes received. The capitalized payment in lieu calculations are presented in Table 6.

TABLE 6
THE MUNICIPALITY OF METROPOLITAN TORONTO
EXEMPT ASSESSMENT AND PAYMENTS IN LIEU CAPITALIZED
TO REFLECT EQUIVALENT ASSESSED VALUES
1970 - 1980

Year	Exempt Assessment	As a % of Total Assessment	Payments in Lieu Capitalized	PIL as a % of Exempt Assessment	PIL as a % of Total Assessment
			($000's)		
1970	1,335,405	19.4%	198,833	14.8%	2.9%
1971	1,332,924	18.5	206,528	15.4	2.8
1972	1,405,889	19.0	223,048	15.8	3.0
1973	1,449,000	19.3	262,766	18.1	3.5
1974	1,479,757	19.1	306,319	20.7	3.9
1975	1,498,159	18.8	365,736	24.4	4.6
1976	1,514,730	18.4	376,375	24.8	4.5
1977	1,520,988	18.2	383,809	25.2	4.5
1978	1,551,422	18.0	444,976	28.6	5.1
1979	1,567,232	17.9	407,326	25.9	4.6
1980	1,579,354	17.7	429,991	27.2	4.8

Source: Area Municipal Financial Statements: 1970 to 1980.

This analysis shows that the capitalized payments in lieu in 1970 comprised a relatively small portion, 14.8%, of all exempt assessment. Payments in lieu gradually increased throughout the 1970's, reaching 28.6% of exempt assessment in 1978. In the subsequent two years to 1980, there was a decrease in payments in lieu received compared with 1978.

The introduction of provincial legislation concerning payments and financial assistance to municipalities contributed to the increase in the proportional contribution of payments in lieu during the period 1970 to 1980. In 1973, the provincial government implemented various reforms such as introducing new payments in lieu structures for universities and hospitals.[1] Further increases in payments in lieu were provided in 1974 under grants compensating municipalities for previously exempt assessments, such as, utilities and Ontario Housing Corporation properties.

Despite this continued increase in payments in lieu, only about one quarter of the exempt assessment generates any revenue for Metropolitan Toronto and the area municipalities. No municipal revenue is provided from the remaining exempt assessment which comprises approximately 18% of the assessment base in Metropolitan Toronto.

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1. Don Richmond and P.S. Ross and Partners, Metroplan: The Financial Structure of Metropolitan Toronto, February 1975, p. 114.

4.3 AREA MUNICIPALITIES TAXABLE ASSESSMENT: 1970-1980

4.3.1 Area Municipality Growth in Taxable Assessment

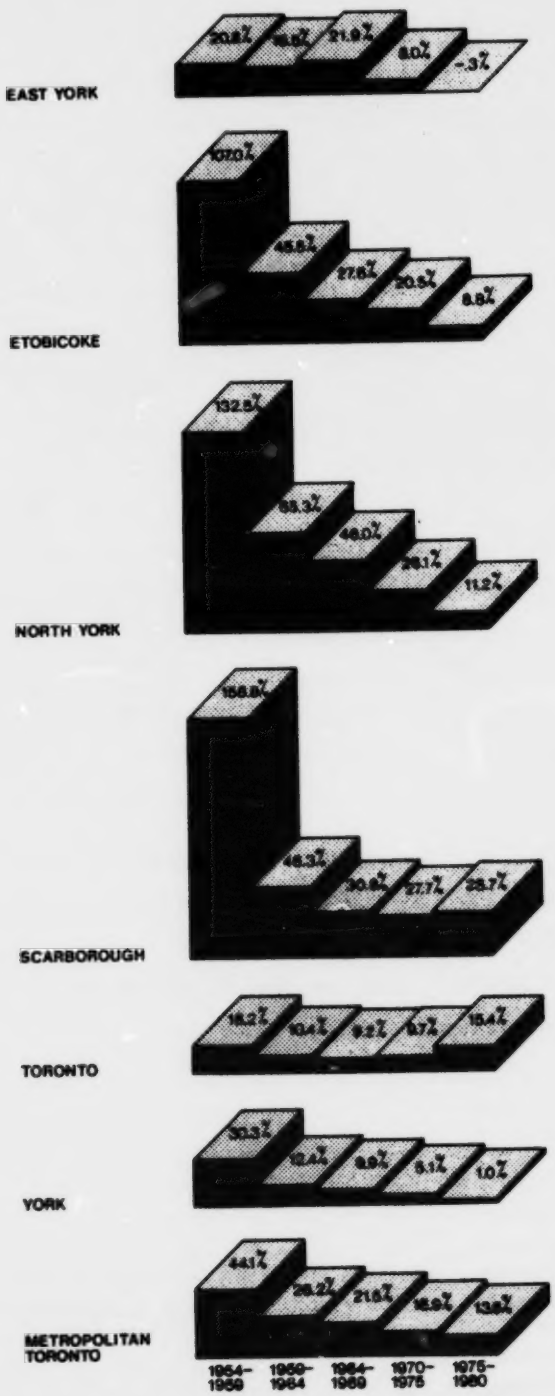
The decline in rates of growth of Metropolitan Toronto's taxable assessment base during the period 1970 to 1980 resulted from the slowing growth in assessment experienced by a number of the area municipalities. Reference to Table 5 shows that both East York and York experienced actual declines in their assessment bases in selected years during this time frame. In 1980, East York's taxable assessment was slightly less than its 1975 assessment total, as can be verified by reference to Appendix 1. Etobicoke and North York, similarly, experienced declines in assessment growth when compared to previous periods. However, Scarborough and Toronto showed some increase in growth rates for taxable assessment towards the end of the 1970's.

During the years 1970 to 1975, all the area municipalities with the exception of Toronto, continued to show decreased growth rates for taxable assessment when compared to previous periods. The City of Toronto's assessment growth increased slightly to 9.7% from 9.2% over the previous five years. This is illustrated in Graph 7 on the following page.

Scarborough assessment base grew the fastest for the five years 1970 to 1975 at 27.7%. This was followed closely by North York at 26.1% and Etobicoke at 20.5%. The remaining municipalities experienced growth of less than 10% over the time frame under consideration.

GRAPH 7

TAXABLE ASSESSMENT GROWTH RATES
METROPOLITAN TORONTO AND AREA MUNICIPALITIES
FOR FIVE YEAR INTERVALS: 1959-1980



The taxable assessment base for Scarborough grew by 28.7% during the subsequent five year period 1975 to 1980. This in fact represented an increased rate of growth over the previous period. The City of Toronto continued the trend to increased assessment growth started in the previous period. Taxable assessment in the City of Toronto grew by 15.4% during the five years to 1980, representing the second fastest growth rate among municipalities in Metropolitan Toronto for the years 1975 to 1980. The remaining municipalities continued the trend to slower growth in taxable assessment, and East York actual registered a slight decline in its assessment base over this period.

Examination of the year-to-year changes previously presented in Table 5, indicate by just how much growth in assessment slowed in the municipalities. North York assessment was growing at the highest annual per cent change (9.2%) in 1970, but ended the decade with 2.1% growth. East York, with the lowest annual per cent change of 2.7% in 1970, had only a 0.3% growth between 1979 and 1980. However, Scarborough recorded the smallest growth decline entering the decade with a 7.1% increase over 1969 and leaving the decade with a 5.9% increase in 1980 over 1979.

4.3.2 Area Municipality Assessment As A Proportion of Total Assessment in Metropolitan Toronto

The composition of total taxable assessment reveals a shift in terms of the percentage amounts contributed by the area municipalities to the Metropolitan Toronto assessment base over the eleven years from 1970 to 1980. As shown in Table 7, Scarborough, which had the greatest growth, was responsible for contributing an additional 3.1% to the metropolitan taxable assessment base, increasing its proportion from 11.9% in 1970 to 14.8% by 1980.

East York's share of the total Metropolitan Toronto taxable assessment decreased from 4.7% in 1970 to 3.8% in 1980. York's proportion of total assessment also decreased from 5.2% in 1970 to 4.2% in 1980. The City of Toronto's share of taxable assessment decreased from 39.9% in 1970 to 38.0% in 1980. The City of North York increased its proportion of total Metropolitan Toronto taxable assessment over the decade from 22.7% in 1970 to 24.0% in 1980. Etobicoke's taxable assessment represented 15.4% of the total in 1970 and 15.2% in 1980, showing little change.

TABLE 7
THE MUNICIPALITY OF METROPOLITAN TORONTO AREA MUNICIPALITY TAXABLE ASSESSMENT AS A PROPORTION OF TOTAL TAXABLE ASSESSMENT 1970, 1975, 1980

Municipality	Proportion of Total Taxable Assessment 1970	1975	1980
East York	4.69	4.33	3.80
Etobicoke	15.38	15.84	15.16
North York	22.76	24.55	24.01
Scarborough	11.97	13.07	14.79
Toronto	39.96	37.50	38.05
York	5.24	4.71	4.18
Metro	100.00%	100.00%	100.00%

Source: Appendix

4.3.3 Area Municipality Residential and Commercial-Industrial Assessment Mix

Unlike the relatively stable trend noted in the mix of assessment classes for Metropolitan Toronto in total, there were substantial shifts in the relative size of the assessment classes in the area municipalities during the years 1970-1980. The greatest change in assessment mix was registered by North York which experienced a shift from a 69% residential/31% commercial-industrial assessment mix in 1970 to a 62% residential/38% commercial-industrial composition in 1980. North York was followed by Etobicoke with a 3% increase in the proportion that the commercial-industrial assessment base represented of taxable assessment. Scarborough had a 1% shift in the proportion of its tax base away from residential assessment. This information is presented in Table 3 and Graph 2.

The City of Toronto showed no change in assessment mix. The Boroughs of York and East York both suffered 4% losses in the proportion that their commercial-industrial assessment represented of total taxable assessment. In 1970, York's assessment mix was 67% residential and 33% commercial-industrial, but this ratio fell to a 71% residential and 29% commercial-industrial mix by 1980. East York in 1980 had a mix ratio of 73% residential and 27% commercial-industrial, compared with 1970 proportions of 69% residential and 31% commercial-industrial.

4.4 AREA MUNICIPALITIES EXEMPT ASSESSMENT: 1970-1980

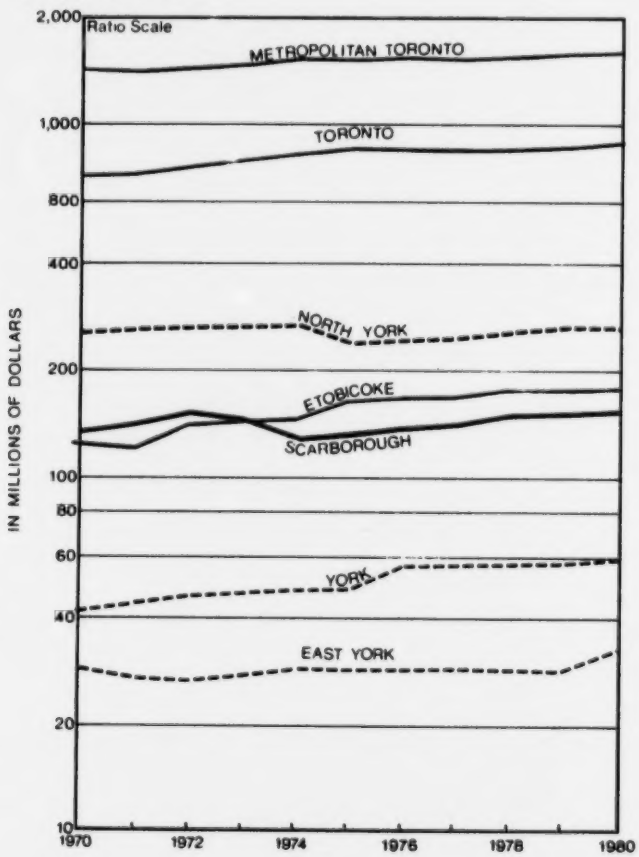
4.4.1 Exempt Assessment

The exempt assessment of the area municipalities reflected the reduced growth trend in assessment which typified the 1970 to 1980 time frame, when compared with the 1954 to 1969 period.

Etobicoke showed the largest growth rate in exempt assessment with a 42% increase over the ten years. Comparable figures for York were a 36% increase. North York recorded the lowest growth with a 3% increase.[1]

GRAPH 8

EXEMPT ASSESSMENT METROPOLITAN TORONTO AND AREA MUNICIPALITIES FOR THE YEARS 1970 TO 1980



1. The data from the Annual Financial Statements of the Area Municipalities showed major increases and decreases in exempt assessment in certain years throughout the eleven year period (e.g. Scarborough in 1974, North York in 1975 and York in 1977) that could not be explained. These figures were checked with the Ministry of Revenue and modified as a result.

However, the 1970-1980 exempt assessment growth rates represent a fraction of the growth rates experienced during 1954-1969, as reflected in the flatter curves in Graph 8 when compared to Graph 5. For example, the rate of growth in exempt assessment for York represents only 14% of the growth rate that it experienced during the 1954-1969 time frame. North York's growth rate, on the other hand, represented an even smaller amount (.07%) of its 1954-1969 rate of growth.

4.4.2 Payments in Lieu of Taxes

Payments in lieu of taxes increased significantly towards the latter half of the decade, and in particular in 1975 and 1976, as demonstrated in Table 8. The City of North York and the Borough of York experienced the greatest increase in the amount of revenue received from payments in lieu. When the payments in lieu were capitalized to show equivalent assessment, North York's equivalent assessment increased from 9.6% in 1970 to 26.6% of exempt assessment in 1980.

The equivalent assessment on which payments in lieu were received in York increased considerably from 5.0% to 12.8% of the exempt assessment. Conversely, Etobicoke showed the smallest change over the eleven years. Throughout this period, however, Scarborough consistently had the highest percentage of exempt assessment which produced some revenue in terms of payments in lieu, which Table 8 documents. Payments in lieu capitalized show that 39% of Scarborough's exempt assessment in 1980 produced some revenue.

TABLE 8
THE MUNICIPALITY OF METROPOLITAN TORONTO
THE CAPITALIZED VALUE* OF PAYMENTS IN LIEU AS
A PERCENT OF EXEMPT ASSESSMENT BY AREA MUNICIPALITIES
1970 - 1980

Year	East York	Etob-icoke	North York	Scar-borough	Toronto	York
1970	8.2%*	18.4%	9.6%	23.0%	13.4%	5.0%
1971	8.5	20.2	10.8	25.1	13.5	4.8
1972	8.5	17.3	10.6	27.0	14.0	4.6
1973	9.2	18.8	12.9	32.9	15.8	5.2
1974	9.0	19.3	16.5	43.2	17.3	5.1
1975	12.9	22.3	27.7	44.0	19.4	5.4
1976	13.2	24.4	26.8	42.1	19.3	12.6
1977	13.0	23.3	26.1	41.3	20.9	12.3
1978	12.7	22.6	28.6	40.0	25.6	12.4
1979	13.1	22.4	28.2	39.5	21.6	12.6
1980	11.9	22.8	26.6	38.9	23.7	12.8

* Payments in lieu are capitalized using the average mill rate of the year in question.

Source: Area Municipal Financial Statements: 1970 to 1980. (From assessment for Local Taxation)

5. A PROJECTION OF GROWTH TRENDS IN ASSESSMENT

5.1 PROJECTED ASSESSMENT GROWTH

Assessment growth in Metropolitan Toronto and the area municipalities, as documented in this report, displayed high annual increases during the 1954-1969 period with progressively lower rates of growth annually throughout the 1970's. It is possible to statistically project historical growth trends into the future and make inferences regarding future assessment growth.

A general review of the annual assessment growth rates during the period 1970 to 1980 provides a reasonable indication of the direction and general magnitude of the trend in assessment growth and subsequently suggests that such trends (i.e. diminishing growth) will extend into the near future. The change in annual growth based on the assessment data for the years 1970 to 1980 is summarized in Table 9.

If present trends continue, growth in assessment which showed a diminishing annual growth rate during the past eleven years, may be exhausted early in the next decade. Based on these historical trends, assessment growth for the metropolitan area should continue to be positive for a period of ten to twelve years.

TABLE 9
THE MUNICIPALITY OF METROPOLITAN TORONTO
PROJECTION OF ASSESSMENT GROWTH FOR METRO AND AREA MUNICIPALITIES
AS INDICATED BY CONTINUATION OF TEN YEAR TREND OF 1971 - 1980

Municipality	Approx. Annual Growth in 1971	Approx. Annual Growth in 1980	Average Annual Change in Growth Rate
East York	2.7%	0.3%	-0.24%
Etobicoke	6.5	1.5	-0.37
North York	9.2	2.1	-0.51
Scarborough *	7.1	5.9	-
Toronto *	4.5	1.8	-
York	2.9	0.1	-0.13
Metro	6.0	2.3	-0.14

* Statistically valid inferences were not possible due to the variability of the annual data.

The analysis of assessment growth for the period 1970 to 1980 for Metropolitan Toronto and the area municipalities clearly shows a trend of slowing assessment growth. This finding is no surprise and is consistent with recent studies on the economic future of Metropolitan Toronto, which document similar trends in population, household formation, employment, income growth and a host of other variables.

However, it must be noted that assessment growth in the future in Metropolitan Toronto will probably result from different factors than in the past. Therefore, historical trends may not be a very reliable indicator of future assessment growth potential. For example, past assessment increases did not record the activity associated with renovations, conversions and improvements to the housing stock. New assessment practices are now in place to capture the assessment value associated with these activities. Infilling of vacant sites accounted for much of the assessment growth in the past. Redevelopment will likely account for assessment changes in the future.

6. SUMMARY

Over the 26 years under review, Metropolitan Toronto commenced the period with high rates of annual growth in both taxable and exempt assessment which declined continually to today's rates. Both taxable and exempt assessment displayed their highest growth rates during the 1954 -1969 period, while witnessing limited growth during the years 1970 to 1980.

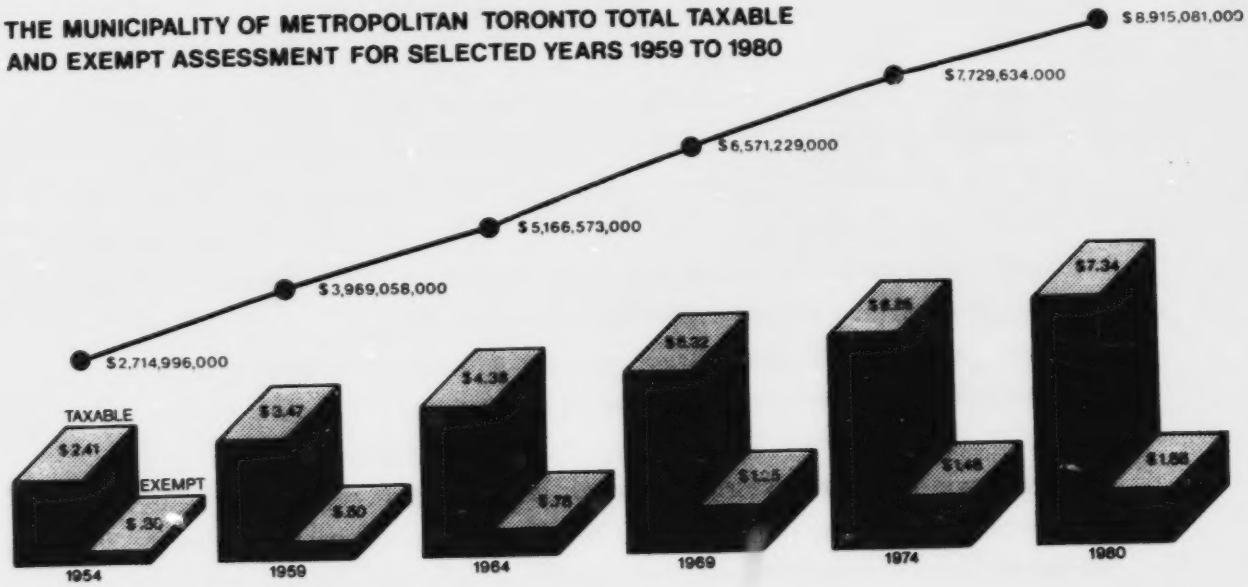
Taxable assessment displayed growth rates of 44%, 26% and 21% during the five year intervals 1954-1959, 1959-1964 and 1964-1969 respectively. The comparable increases for growth in taxable assessment during the five year intervals 1970-1975 and 1975-1980 were 16% and 13% respectively.

Over the entire period 1954 to 1980, exempt assessment grew at more than twice the rate of taxable assessment. However, during 1970 - 1980, taxable assessment grew more rapidly than did exempt assessment. A summary of the increase in total assessment in Metropolitan Toronto and the relationship between taxable and exempt assessment is presented in Graph 9.

The mix in assessment classes throughout the period of study remained relatively stable for Metropolitan Toronto in total. In 1959, Metropolitan Toronto's assessment comprised 57% residential and 43% commercial-industrial assessment. In 1980, residential and commercial-industrial classes comprised 55% and 45% of assessment respectively. Nevertheless, a long-term trend is apparent towards an increased proportion of commercial-industrial assessment in the mix. This appears to reflect the dismal performance of the housing market in the latter part of the 1970's.

GRAPH 9

THE MUNICIPALITY OF METROPOLITAN TORONTO TOTAL TAXABLE AND EXEMPT ASSESSMENT FOR SELECTED YEARS 1959 TO 1980



In direct contrast to the long-term shift in the composition of Metropolitan Toronto's assessment mix towards an increased proportion of commercial-industrial assessment, a number of the area municipalities had shifts in mix that lessened the importance of commercial-industrial assessment in their assessment bases. The Boroughs of York and East York both showed 4% losses in the relative importance of commercial-industrial assessment over the past ten years. This has caused a significant increase in the burden of property taxation onto their residential taxpayers, and is a contributory factor to the comparatively high mill rates in these two municipalities.

Payments in lieu of taxes as a source of revenue increased in the early 1970's. However, as the capitalized value of payments in lieu shows, only 25% of total exempt assessment produces any revenue.

In terms of the area municipalities, the study period highlighted much more variability in growth trends and mix of classes of assessment. North York and Scarborough in particular displayed significant growth trends in assessment. Interestingly, both the City of Toronto and the Borough of Scarborough ended the period with five year growth rates in assessment that were greater than the previous five years from 1970 to 1975. This type of trend reversal will be necessary in the inner municipalities in order to sustain growth in the metropolitan assessment base into the future.

The slower rates of assessment growth in the City of Toronto and the two inner municipalities of York and East York when compared to the much higher growth rates experienced by the remaining area municipalities, highlighted the suburbanization element in Metropolitan Toronto's development. However, towards the end of the 1960's and continuing throughout the 1970's, Metropolitan Toronto's municipalities experienced growth on a reduced scale. During this same period, the municipalities surrounding Metropolitan Toronto showed growth trends similar to those which Metropolitan Toronto displayed during the 1950's and 1960's. This in turn reflects the maturing state of Metropolitan Toronto and the increasing suburbanization of the regions surrounding Metropolitan Toronto.

The slowing trends for growth variables, in themselves, are not to be feared although they should be acknowledged and incorporated into future management of the Metropolitan Corporation and the area municipalities. These trends signify, for the most part, a maturing of Metropolitan Toronto as an urban area. Metropolitan Toronto is now almost totally built up, fully serviced, and its boundaries are established, for all time (it appears), by provincial legislation.

In contrast to almost all other large urban areas, Metropolitan Toronto has reached this state of maturity while remaining very strong financially when measured by revenue sources, debt load and assessment base. Fortunately, the Metropolitan Toronto experiment and growth in Metropolitan Toronto occurred during a period of unprecedented prosperity in Metropolitan Toronto, the Province of Ontario, and the country. The municipal challenge is no longer concerned with rapid growth, but with responsible management of a mature system.

This analysis of assessment trends has specific implications for the municipal revenue base. Property taxes are the major source of municipal revenue. When growth in assessment was substantial, municipal services could be expanded without causing municipal mill rates to increase much beyond increases that were being experienced generally with other prices in other areas of the economy. That is, while expanded services and service levels cost the taxpayers money, the growth in assessment and the subsequent sharing of the costs among increasing numbers of taxpayers, precluded undue increases on any single taxpayer.

With little or no growth in assessment, mill rates must increase by roughly the inflation rate in the economy just to maintain existing services and service levels. New services and increased service levels, under these conditions, can only be financed by increasing the mill rates beyond the inflation rate in the economy, if municipal services are not cut back in other areas. When property taxes, as a percent of personal or business income, increase to levels that are seen as onerous, residential and business

increase to levels that are seen as onerous, residential and business assessment may move out of Metropolitan Toronto if a significant discrepancy exists in property tax burdens between Metropolitan Toronto and the surrounding regions.

The pressure on the mill rate discussed above is further increased in situations where there is little or no growth in an area municipality's assessment base, but the assessment mix is shifting from commercial-industrial to increased reliance on residential assessment. In this case the residential mill rate has to be increased to also make up for the 15% premium that used to be provided in taxes by the commercial-industrial assessment, just to maintain the previous amount of taxation. Both York and East York have been caught in this situation.

A somewhat related issue also arises when growth in assessment is small in annual terms. Under conditions of substantial assessment growth, annual fluctuation in the growth rates, while of concern to the revenue generating capacity of the municipality, never seriously threatened the provision of existing services and service levels. Growth in assessment still existed. A fluctuation of 2% in the growth in assessment may have caused assessment growth to slow from 6% to 4%, but growth in assessment was still considerable.

However, with assessment growth averaging 1% or 2%, a similar fluctuation of a decrease of 2% results in a loss of assessment which has very different consequences. Loss of assessment may threaten the provision of existing services and service levels. As a minimum, mill rates would have to increase beyond inflation simply to maintain services. Expansion of services financed from property taxes is out of the question if this trend were to persist.

The management of growth and the management of a stable, mature municipality present different problems. Metropolitan Toronto is in a strong financial position to maintain existing service levels in the face of slowing growth. However, any expansion of services and service levels, if required to

be financed from the assessment base and property taxes, will have to be carefully weighed against the eventual financial impact on existing taxpayers, if we are to remain financially strong and fiscally responsible as a municipality.

An industrial strategy that is directed towards maintaining employment opportunities will only serve the municipality adequately if municipal property tax revenue generated from the new industrial assessment is greater than the costs to the municipality of attracting the assessment. Further, the assessment and taxation system in Metropolitan Toronto must be in tune with that of the surrounding regions. These two issues are examined separately in the following sections of the report.

PART II

THE FINANCIAL IMPACT OF AN INCREASED INDUSTRIAL ASSESSMENT BASE FOR A MUNICIPALITY WITHIN METROPOLITAN TORONTO

1. EFFECTS OF INCREASED ASSESSMENT

1.1 INTRODUCTION

A municipality finances the costs of providing goods and services to its population from three primary sources of revenue; property assessment, provincial grants and user charges. Provincial grants are decreasing as a proportion of total revenues. User fees constitute only a small portion of local revenue requirements. Revenue from property taxation is the only remaining source for growth in local government revenue. Property tax revenue can grow by increasing the mill rate charged, or by applying a constant mill rate to a growing assessment base, or by both of these actions.

Presently, many municipalities are developing programs to attract and maintain industrial and commercial assessment. Commercial-industrial assessment growth is encouraged by municipalities not only because it creates jobs and produces associated economic activities, but also because it generates more in property tax revenue per dollar of assessment than does residential assessment.[1] Generally speaking, the smaller a municipality's commercial-industrial assessment base, the higher the mill rates, and conversely, the larger a municipality's commercial-industrial assessment base, the lower the mill rates per thousand dollars of assessment.

The assumption that the addition of commercial-industrial assessment is financially beneficial to a municipality is examined in this part of the paper. More specifically, this section assesses under what circumstances an area municipality in Metropolitan Toronto will benefit or suffer financially from additional commercial-industrial assessment.

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1. Provincial legislation requires that residential/farm assessment be taxed 15% lower than commercial-industrial assessment.

1.2 A REVIEW OF THE LITERATURE ON THE EFFECTS OF INCREASED ASSESSMENT

The commonly held notion that increased industrial assessment always generates more direct revenue than costs for municipalities, has been dispelled by studies dealing with both the Kitchener-Waterloo[1] and Niagara[2] regional municipalities. Both studies simulated an injection of $1 million of new commercial-industrial assessment into one municipality, while the assessment bases of the other municipalities in the region were held constant. The simulation exercise revealed that the assumed long-run benefits expected for each area municipality which attracted the new assessment were greatly diminished or in some cases nullified by increased costs associated with the new assessment.

The additional tax revenue generated by the new commercial-industrial assessment is used for financing local, regional and educational expenditures. However, the municipality attracting the additional $1 million worth of assessment (holding the assessment of all other municipalities constant) may be faced with more in annual costs than the revenue provides over the long run. The possible failure to generate "tax profits" is attributed to three major factors, when it occurs.[3]

First, due to the two-tier structure of regional government, the additional revenue generated is apportioned in part to increased shares of regional and school board levies. This occurs because regional and school board costs are shared by local municipalities in the proportion that their assessments represent of the total assessment in the region. The municipality which has expanded its tax base must contribute a larger share towards the costs of operation of the region, and the school board.

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1. Waterloo Region Review Commission, Issues in Municipal Finance, November 1978.
2. L.A. Soroka, Public Finance in the Niagara Region, a background report prepared for the Niagara Region Study Review Commission, August 1976.
3. Ibid. p. 129 and L.A. Soroka op.cit. pp. 50-51

The second reason why a municipality attracting new assessment may fail to generate tax profits concerns the costs incurred by the local municipality itself. The municipality may have to provide services to the new development which previously may not have been required (eg. street lighting, road repairs, police and fire protection, etc.). This results in capital spending on public facilities. In municipalities that are totally serviced or in municipalities that charge developers for these costs, this impact may not be significant. Similarily, the region and the school board may incur additional costs, which increase the total costs to be met by all municipalities of which the municipality in question must assume a larger share by reason of the increased assessment.

Thirdly, revenue from the Provincial Resource Equalization Grant may decrease as a result of increased assessment, because this grant is based on an assessment per capita deficiency calculation.

All three factors, when combined, may signify cost increases and revenue reductions which are in excess of tax profits and therefore are financially detrimental to the municipality that attracts the additional $1 million of assessment. The studies showed that under some circumstances the other municipalities in the region stood to gain more from their neighbour's increase in assessment than the municipality experiencing the assessment growth.

The regional and school board levies may be reduced for a municipality as a result of the increase in some other municipality's assessment. Furthermore, this neighbour municipality may receive a larger Resource Equalization Grant than before and would not be saddled with any new local service costs.

However, it is not possible to generalize from the experience in other municipalities. The remainder of this report analyzes the likely impact on revenues and costs of increasing an area municipality's commercial-industrial assessment in Metropolitan Toronto while assuming no comparable increase in the assessment of any of the remaining municipalities.

2. THE DIRECT FINANCIAL IMPACT OF INCREASED ASSESSMENT ON MUNICIPALITIES WITHIN METROPOLITAN TORONTO

2.1 THE ANALYTICAL FRAMEWORK

For the purpose of this analysis in Metropolitan Toronto, a $20 million addition in the commercial-industrial assessment base of an area municipality was assumed, while the assessment bases of the remaining area municipalities were held constant. This $20 million of increased commercial-industrial assessment represents a development with an approximate market value of $110 million based on the present method of assessing used in Metropolitan Toronto.

The commercial-industrial mill rates for general local, regional and school board purposes for each of Metropolitan Toronto's area municipalities for 1980 are presented in Table 1. These mill rates are applied to the taxable assessments of the area municipalities to generate tax revenues. The increased revenue generated for an area municipality is calculated by the application of these mill rates to the new assessment.

TABLE 1

THE MUNICIPALITY OF METROPOLITAN TORONTO
COMMERCIAL-INDUSTRIAL MILL RATES
FOR AREA MUNICIPALITIES
1980

Municipality	General Municipal Purposes	Metropolitan Toronto Purposes	School Board Purposes	Total C-I Mill Rate
East York	47.00	49.51	104.30	200.81
Etobicoke	43.46	55.15	101.90	200.51
North York	40.81	54.78	103.95	199.54
Scarborough	52.49	52.35	104.45	209.29
Toronto	52.40	60.15	103.42	215.97
York	65.13	51.83	103.39	220.35

Source: Area Municipal Financial Statements, 1980.

2.2 THE METROPOLITAN LEVY

The effect of an additional $20 million of commercial-industrial assessment on the regional levy apportionment for each area municipality in Metropolitan Toronto is depicted in Table 2. The first column shows the increased metropolitan levy borne by each individual area municipality as a result of an additional $20 million in taxable assessment when the commercial-industrial assessment bases of the remaining area municipalities are held constant.

Twenty million dollars of additional assessment in a municipality theoretically attracts an additional $957,000 of metropolitan levy. However, this amount is offset, to some extent, by the change in the relative share of the overall total assessment of each municipality.

TABLE 2

METROPOLITAN TORONTO LEVY ADJUSTMENTS RESULTING FROM AN ADDITIONAL $20 MILLION OF COMMERCIAL-INDUSTRIAL ASSESSMENT IN EACH OF THE AREA MUNICIPALITIES IN 1980

Municipality	Increase in Metropolitan Levy Resulting from an Expanded Tax Base	Reduction in Metropolitan Levy on Other Municipalities					
		East York	Etob.	North York	Scarb.	Toronto	York
				($000's)			
East York	913	-	138	222	143	367	43
Etobicoke	819	44	-	222	143	367	43
North York	735	44	138	-	143	367	43
Scarborough	814	44	138	222	-	367	43
Toronto	590	44	138	222	143	-	43
York	914	44	138	222	143	367	-

Obtained by adding $20 million to the commercial-industrial assessment base of each municipality in turn and calculating the increase in the metropolitan levy for the municipality attracting the additional assessment as well as calculating the reduction in the metropolitan levy for each of the other municipalities.
Gross levy before deductions (e.g. Resource Equalization Grant)

East York and York would incur the greatest increase in regional levies ($913,000 and $914,000), while the City of Toronto would experience the smallest increase ($590,000) as a result of $20 million of new assessment. The considerable difference in levy impact is apparent from examination of Table 2.

Interestingly, the largest municipality, in terms of assessment, attracts the smallest increase in the metropolitan levy. This occurs because the $20 million increment in assessment represents only a marginal increase in the taxable assessment of a large municipality, but it represents a significant increase in the taxable assessment of the smaller municipality.

Columns 2 to 7, in Table 2, represent the reduction in the regional levy of the area municipalities whose commercial-industrial assessment bases were held constant. For example, as a result of East York expanding its commercial-industrial assessment by $20 million, the Metropolitan Toronto levy for Etobicoke would decrease by $138,000; North York would decrease by $222,000; Scarborough would decrease by $143,000; the City of Toronto would decrease by $367,000 and York would see a decline of $43,000.

In Metropolitan Toronto, sharing of metropolitan costs is based upon the ability-to-pay principle of taxation where the value of property assessment is used as the measure of ability-to-pay. The more assessment a municipality has when compared to the total assessment in Metropolitan Toronto, the more of the metropolitan levy it bears. In this analysis, it is clear that the process cuts both ways. The municipalities which had no change in assessment are experiencing reductions in their regional levies in the proportion that their assessment is of the total assessment in Metropolitan Toronto. The City of Toronto, which contributes the largest amount to the levy, receives the greatest reduction, followed by North York, Scarborough, Etobicoke, York and East York.

2.3 THE EDUCATION LEVY

The addition of $20 million of commercial-industrial assessment on the education levy[1] of the area municipalities produces results similar to those for the metropolitan levy, as is shown in Table 3. York would attract the greatest increase in education levy ($1,744,000) while again, the City of Toronto would experience the smallest increase ($1,109,000). The comparative changes in the education levy were identical to that experienced with the metropolitan levy.

TABLE 3

EDUCATION LEVY ADJUSTMENTS RESULTING FROM AN ADDITIONAL $20 MILLION OF COMMERCIAL-INDUSTRIAL ASSESSMENT IN EACH OF THE AREA MUNICIPALITIES IN 1980

Municipality	Increase in Education Levy Resulting from Expanded Tax Base	Reduction in Education Levy in Other Municipalities					
		East York	Etob.	North York	Scarb.	Toronto	York
				($000's)			
East York	1,728	-	263	422	268	705	70
Etobicoke	1,551	86	-	422	268	705	70
North York	1,392	86	263	-	268	705	70
Scarborough	1,546	86	263	422	-	705	70
Toronto	1,109	86	263	422	268	-	70
York	1,744	86	263	422	268	705	-

Obtained by adding $20 million to the commercial-industrial assessment base of each municipality in turn and calculating the increase in the educational levy for the municipality attracting the additional assessment as well as calculating the reduction in the educational levy for each of the other municipalities.

1. The Separate School Board costs are excluded.

The reductions in the educational levy of the area municipalities whose assessment bases were held constant are presented in Columns 2 to 7 of Table 3. A $20 million expansion in Scarborough's assessment base, for example, implies that East York would experience a reduction in its education levy by $86,000; Etobicoke by $263,000; North York by $422,000; the City of Toronto by $705,000 and York by $70,000. The largest municipalities register the greatest reductions in education levy by virtue of another municipality increasing its assessment, and the smallest municipalities recorded the smallest reductions.

2.4 THE RESOURCE EQUALIZATION GRANT

The Resource Equalization Grant for a municipality is calculated on the basis of a per capita assessment deficiency when compared to a provincial average. An increase in assessment, all other things being equal, will increase the per capita assessment in a municipality and thereby reduce the grant entitlement. In the two regional reports previously referenced, the Resource Equalization Grant decreased as a result of the increase in the assessment bases. The reduction, however, was marginal.

In the case of Metropolitan Toronto, the reduction in the Resource Equalization Grant to the three area municipalities that receive it, namely Scarborough, York and East York, is also minimal. This is shown in Table 4, columns 4 and 5. East York would experience the greatest reduction of $48,000 at the local level and $51,000 at the metropolitan level. Scarborough's grant did not suffer any reduction and the grant received by York decreased by $5,021 at the local level and increased by the same amount at the metropolitan level.

The loss in the Resource Equalization Grant would be even less noticeable if the additional assessment occurred in conjunction with an increase in population. An increase in population would lower per capita assessment and possibly offset the impact calculated.

2.5 NET FINANCIAL BENEFITS TO EACH MUNICIPALITY

Table 4 presents the net financial benefits for each area municipality resulting from an additional $20 million of commercial-industrial assessment in the municipality while holding the assessment of all other municipalities constant. The benefits are calculated by deducting the increases in both the metropolitan and education levies (columns 2 and 3) and the reduction in the Resource Equalization Grant (columns 4 and 5) from the increased tax revenue (column 1) generated by applying existing mill rates to the new assessment. No major losses result from changes in Resource Equalization Grant entitlements.

TABLE 4

THE FINANCIAL IMPACT OF AN ADDITIONAL $20 MILLION OF COMMERCIAL-INDUSTRIAL ASSESSMENT IN EACH OF THE AREA MUNICIPALITIES IN 1980

Municipality	Additional Tax Revenue[1]	Increased Regional Levy[2]	Increased Educational Levy[3]	Reduction in Resource Equalization Grant[4] Local	Regional	Net Financial Benefits to Each Area Municipality[5]
			($000's)			
East York	4,016	913	1,728	48	51	1,276
Etobicoke	4,010	819	1,551	-	-	1,640
North York	3,990	735	1,392	-	-	1,863
Scarborough	4,186	814	1,546	-	-	1,826
Toronto	4,319	590	1,109	-	-	2,620
York	4,407	914	1,744	5	(5)	1,749

1. Obtained by multiplying the C-I mill rates for the total of educational, regional and local purposes to the $20 million of new C-I assessment.
2. Column 1 from Table 2.
3. Column 1 from Table 3.
4. Columns 4 and 5 involved the application of a complex formula established by the Province. The figures were supplied by Metro Treasury Department.
5. Represents the subtraction of the increases in the regional and educational levies and the Resource Equalization Grant from the additional tax revenue.

The net general benefits accruing to each area municipality from a $20 million increase in a commercial-industrial assessment, with the taxable assessment in all other Metropolitan Toronto municipalities remaining constant, indicates that the City of Toronto would benefit the most with a $2,620,000 net gain in tax revenues. North York would experience the second greatest financial benefit of $1,863,000, followed by Scarborough with $1,826,000, York with $1,749,000 and Etobicoke with $1,640,000. East York would benefit the least since its increase in net revenue is estimated at $1,276,000. However, it is important to note that all six area municipalities showed net increases in tax revenue from this simulation of assessment growth.

Put another way, for every dollar of additional tax collected from new assessment, East York can keep 31 cents, Etobicoke retains 40 cents, North York retains 46 cents, Scarborough keeps 43 cents, Toronto retains 60 cents, and York retains 39 cents.

2.6 LOCAL SERVICE COSTS

The figures in Table 4 show an annual tax benefit, that is, revenues exceed costs and therefore there is a net financial benefit from new assessment. These figures, however, represent the net financial benefits accruing to the area municipalities before accounting for the cost of services which the area municipalities may have to provide to secure the new assessment. Given that the developer in most instances assumes all development costs, the local municipality which received the new assessment will indeed benefit.

However, if the local municipality is responsible for paying for local service improvements, then the net financial benefits accruing to each individual area municipality would be smaller or perhaps disappear. New assessment invariably involves capital costs for initial development and may result in an ongoing annual stream of servicing and maintenance costs. Whether any of the area municipalities would in fact lose revenue would depend upon how great the initial and subsequent ongoing service costs were to the municipality.

In this paper local service costs were not examined due to a lack of consistent data concerning the costs incurred by local municipalities and by Metropolitan Toronto resulting from increased assessment.[1] Therefore, the financial implications involved when incorporating local service costs in the simulation remain open to question.

The last column in Table 4, shows the approximate magnitude of tax benefit produced by an additional $20 million of assessment. Of course, it is important to keep in mind that Table 4 indicates the general magnitude of an ongoing annual financial benefit, while a servicing expenditure is usually a one-time lump sum expense. That is, the annual tax benefit of Table 4 can best be used to signify the payback period associated with attracting new assessment.

For example, if North York were to incur a local service improvement expenditure to the municipality of $5.7 million to get $20 million worth of new assessment, the payback period would be approximately three years ($5.7 million cost divided by $1.9 million annual tax benefit) and after the three year period, the municipality would enjoy an annual net financial benefit from the new assessment. This, of course, assumes minimal or no directly related ongoing operating costs associated with development that provided the new assessment. A graphical summary of the data in Table 4 is presented in Graph 1.

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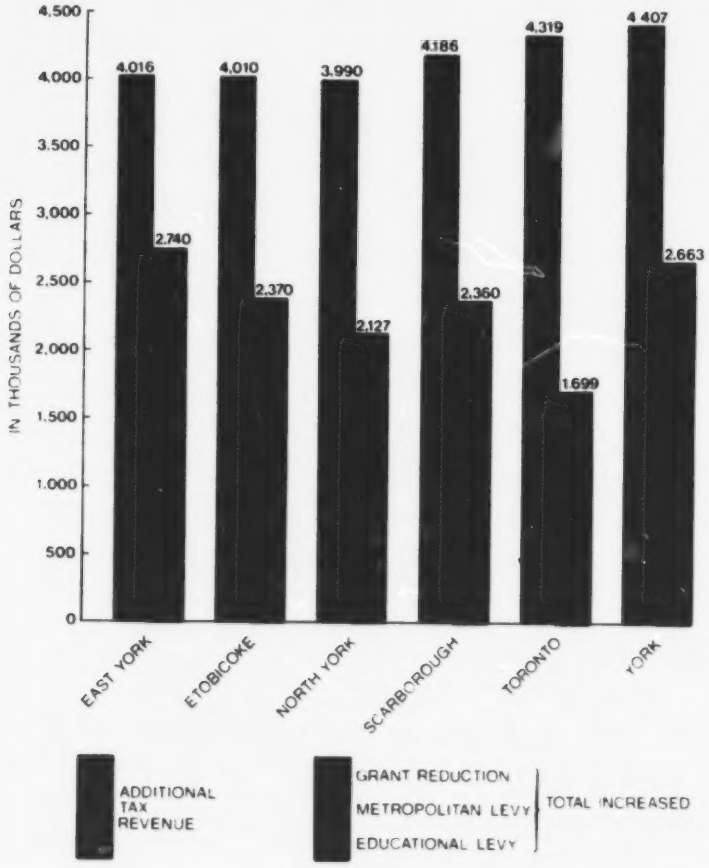
1. In Clayton Research Associates Ltd., Municipal Finances and the City of Toronto's Inner Core Area, September 1975, pp. 82-118, the financial profile of a City of Toronto inner core area in 1973 revealed benefits accruing to the City of Toronto from revenues in excess of costs, while Metro would incur expenditures in excess of revenues.

GRAPH I

THE FINANCIAL IMPACT OF AN ADDITIONAL $20 MILLION OF COMMERCIAL/INDUSTRIAL ASSESSMENT IN EACH OF THE AREA MUNICIPALITIES IN 1980



2.7 FINANCIAL BENEFITS TO OTHER MUNICIPALITIES

The net financial benefits accruing to each of the five area municipalities, given that the additional $20 million occurs in the sixth area municipality, are displayed in Table 5. For example, if East York were to attract the additional commercial-industrial assessment, Etobicoke would stand to benefit by $401,000 through the reduction of both its regional ($138,000) and educational ($263,000) levies. The City of Toronto would stand to benefit the most from the location of the additional assessment elsewhere ($1,072,000) while York would benefit the least ($112,000).

TABLE 5

NET FINANCIAL BENEFITS TO OTHER MUNICIPALITIES ARISING FROM AN ADDITIONAL $20 MILLION OF COMMERCIAL-INDUSTRIAL ASSESSMENT IN EACH OF THE AREA MUNICIPALITIES IN 1980

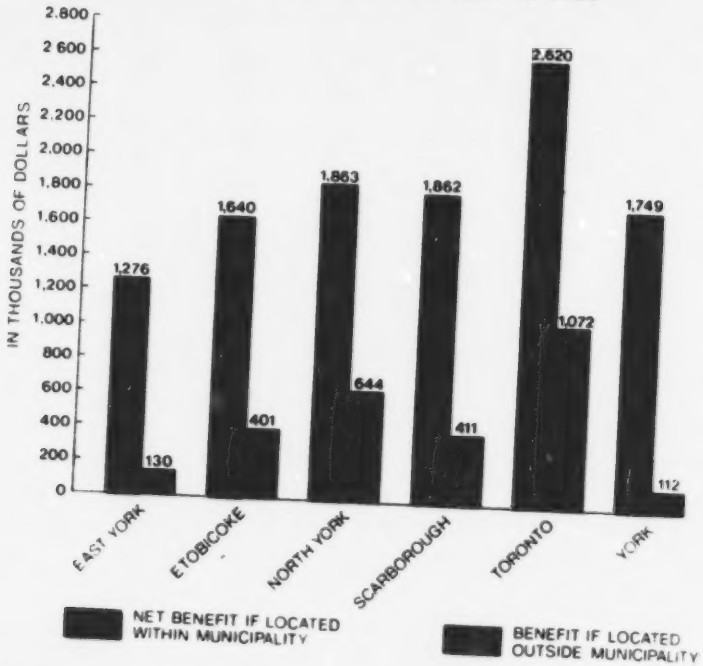
An Additional $20 Million of Commercial-Industrial Assessment in:	Financial Benefit to the Other Municipalities [1]					
	East York	Etob.	North York	Scarb.	Toronto	York
			($000's)			
East York	-	401	644	411	1,072	112
Etobicoke	130	-	644	411	1,072	112
North York	130	401	-	411	1,072	112
Scarborough	130	401	644	-	1,072	112
Toronto	130	401	644	411	-	112
York	130	401	644	411	1,072	-

1. Obtained by adding columns 2 to 7 of Table 2 (Reduction in Regional Levy) to columns 2 to 7 of Table 3 (Reduction in Educational Levy)

As can be seen, the accrual of benefits to the five area municipalities as a result of the location of the additional assessment in the sixth area municipality produces identical benefits for each municipality regardless of which area municipality attracts the extra assessment. However, it is important to note that the net financial benefit (excluding service costs) from having the assessment located in one's own municipality exceeds the financial benefit produced by a reduction in levy responsibilities that occurs when the new assessment is located in another municipality in Metropolitan Toronto. That is, the taxpayer of each municipality benefits the most when the new assessment is located in the municipality in question. This is illustrated in Graph 2.

GRAPH 2

NET FINANCIAL BENEFITS ARISING FROM AN ADDITIONAL $ 20 MILLION OF COMMERCIAL/INDUSTRIAL ASSESSMENT IN EACH OF THE AREA MUNICIPALITIES IN 1980



3. SUMMARY AND CONCLUSIONS

The addition of $20 million in commercial-industrial assessment to one of Metropolitan Toronto's area municipalities essentially represents an investment worth approximately $110 million at market value. From the analysis of the injection of this $20 million of new assessment into the 1980 assessment base of each one of Metropolitan Toronto's area municipalities, while holding the assessment bases of the remaining area municipalities constant, we note that the area municipality which attracts the $20 million incurs an increase in its metropolitan and school board levies and, in the case of York and East York, the Resource Equalization Grants from the Province of Ontario are reduced. Nevertheless, if no significant local servicing costs are involved, all the municipalities show a net financial benefit from new assessment.

The net financial benefit shown by the simulation is reasonably assured in Metropolitan Toronto because the area is already serviced to accommodate growth in addition to the development that now exists, and developers are required to pay the extra costs associated with their developments or redevelopments. It is important, in a maturing urban area, to continue with this latter policy.

Throughout the simulation, the City of Toronto consistently benefitted by the greatest margin. The City of Toronto benefitted the most from the location of the additional assessment within its own boundaries (see Table 4) and also experienced the greatest financial benefit when the new assessment was located elsewhere in Metropolitan Toronto (see Table 5). On the other hand, East York exhibited the smallest net financial benefit from the addition of $20 million of assessment within its boundary, while York benefitted the least when the assessment was located in another municipality.

The analysis of a $20 million assessment increase in the Municipality of Metropolitan Toronto revealed that an area municipality experienced the greater direct financial benefits from the location of the additional assessment within its own jurisdiction as compared to the financial benefits registered from the location of the assessment elsewhere, assuming that local service costs were comparable. Given that increased commercial-industrial investment is financially beneficial, it would seem appropriate for each municipality to continue encouraging the location of industry and the growth of commercial-industrial assessment within its own jurisdiction.

However, from the metropolitan perspective, it makes sense to locate new commercial-industrial assessment first, within Metropolitan Toronto's boundary instead of outside, and secondly, to accommodate the development within Metropolitan Toronto at the location where it incurs the least metropolitan costs, when considered from both the short-term and long-term perspectives. This policy would provide the maximum benefit to all the taxpayers of Metropolitan Toronto.

This analysis suggests that an industrial strategy for Metropolitan Toronto will have to be sensitive to the financial implication that development has on the finances of an area municipality, as well as the impact that it has on the metropolitan taxpayers in general.

PART III

COMPARABILITY OF INDUSTRIAL ASSESSMENT AND PROPERTY TAXATION IN METROPOLITAN TORONTO AND SURROUNDING AREAS

1. PURPOSE

The literature on industrial development attempts to explain the importance of various factors in the final decision of industry to locate in a specific area. While there is some agreement on the type of factors that affect location, there is little unanimity on their relative importance. Factors influencing the location of industry appear to be situational.

One factor that is found on most lists of locational criteria is property taxes. While begging the question of the influence of this factor on the location of industry in Metropolitan Toronto, this part of the study examines the comparability of commercial-industrial assessment and property taxation policies in Metropolitan Toronto and the surrounding areas.

Accordingly, this part of the report will seek to verify or refute the generally held view that commercial-industrial property within Metropolitan Toronto is assessed and taxed at a much higher rate than is commercial-industrial property in the surrounding regions of Peel, York and Durham. It also examines the thesis that within Metropolitan Toronto, the property tax burden on a commercial-industrial property in the City of Toronto is considerably greater than the tax burden on commercial-industrial property in the other area municipalities. The analysis relies primarily on data with respect to industrial properties, but the conclusions drawn also hold for commercial properties.

Some of the reasons for the discrepancies in the rates of taxation within Metropolitan Toronto and between Metropolitan Toronto and the surrounding municipalities are then examined.

2. DATA ON THE RELATIVE RATES OF INDUSTRIAL TAXATION

In order either to refute or support the contention that municipalities in Metropolitan Toronto tax industry significantly higher than surrounding municipalities and that within Metropolitan Toronto, the City of Toronto taxes industry significantly higher than the other area municipalities, three sources of available data were examined.

The three sources of data were the Toronto Area Industrial Development Board (TAIDB), the Provincial Ministry of Industry and Tourism, and data assembled by the Port Industrial Development Task Force.

The TAIDB provided data for a hypothetical industrial property in selected municipalities and also made available sample data from its client firms that showed the average property taxes paid per square foot of building. The Ontario Ministry of Industry and Tourism (since renamed) assembled a statistical publication called Profiles of Ontario Municipalities. These data were referenced through a secondary source, namely the files of the Commissioner of Development for the Borough of Scarborough. The data used by the Port Industrial Development Task Force were supplied by the Ministry of Revenue and relate only to realty taxes (i.e. do not include business taxes), and refer to a standard building and property for the year 1979. These data are presented in Table 1.

Although three sources of data were examined, it was difficult to determine the reliability of the data or the independence of the sources. The data, in one way or another, all are referenced back to the Ministry of Revenue Assessment Offices. Therefore, while three separate sources of data were reviewed in order to try and substantiate the comparative levels of taxation, the consistency of the data may simply denote a common reference to Ministry of Revenue data.

TABLE I

COMPARATIVE STATISTICS OF PROPERTY TAXES FOR SELECTED MUNICIPALITIES IN THE TORONTO AREA - 1980

Municipality	(1) TAIDB Regional Assessment Offices	(1) TAIDB Client Firms	Ministry of Industry & Tourism	(2) Port Ind. Dev. Task Force*
	($ per square foot of building)			
Toronto	**1.89**	**2.37**	-	**1.08**
East York	1.31	1.00	-	-
Etobicoke	1.28	1.09	1.15	.79
North York	1.28	1.06	1.20	.74
Scarborough	1.34	1.20	1.30	.82
York	1.42	.76	-	-
Metropolitan Toronto	**1.42**	**1.25**	**1.22**	**.86**
Aurora	.65	.75	-	-
Markham	.59	.68	-	-
Richmond Hill	.62	.51	-	-
Vaughan	.62	.56	-	-
Whitchurch-Stouffville	.51	.51	-	-
Newmarket	.54	.47	-	-
Region of York	**.58**	**.58**	-	**.36**
Caledon	.61	.73	.64	-
Brampton	.65	.69	.59	.38
Mississauga	.68	.68	.66	.40
Region of Peel	**.65**	**.70**	**.63**	**.39**
Ajax	.63	.55	.66	-
Pickering	.58	.62	.64	-
Newcastle	.65	.56	-	-
Whitby	.65	.79	.78	-
Oshawa	.68	.64	-	-
Region of Durham	**.64**	**.63**	**.69**	**.40**

* Realty Tax Only 1979

Sources: (1) Toronto Area Industrial Development Board
Regional Assessment Offices: 25,000 sq. ft. building on 1.72 acres, 12% of building used as air conditioned office, brick 3 sides, 16 foot ceilings, paved front car parking and side drives.

(2) Ministry of Industry and Tourism, Profiles of Ontario Municipalities, 1979, from files of Commissioner of Development, Borough of Scarborough: 25,000 sq. ft. bldg., rectangular lot, 10% office space, 18' to 20' ceilings, self-supporting brick structure.

(3) Port Industrial Development Task Force Report, The Task Force, 1980, Figure 5, p.43: 22,000 sq. ft. building on one acre of land (density = 0.5)

Generally, the process followed to generate these statistics was as follows. A standard square footage of building and a specified amount of land was described along with the building type and other attributes that enter the assessment equation. The location by municipality or industrial subdivision was then specified and a typical assessment for the property, and municipality in question, was obtained from the Assessment Office. This assessment figure was multiplied by the commercial mill rate for the municipality to obtain a total property tax estimate. The estimate then was divided by the square footage of the building specified to arrive at the figure quoted of property taxes per square foot of building. The TAIDB "client firm" data are actual data on taxes paid by these firms.

The figures in Table 1 indicate that commercial and industrial property in Metropolitan Toronto is taxed considerably higher, on a per square footage basis, than it is in the surrounding regional municipalities. It is not the actual figures in the table but their comparative relationships that are important in drawing this conclusion. Similarly, industrial and commercial assessment in the City of Toronto is taxed higher on a per square foot basis than industrial and commercial assessment in the rest of Metropolitan Toronto.

For example, the average industrial tax rate per square foot in Metropolitan Toronto is in the range of $1.22 to $1.33. For the municipalities in the regions surrounding Metropolitan Toronto, the tax per square foot on industry seldom exceeds $.65 to $.70 a square foot. These data suggest that industry in Metropolitan Toronto is taxed at approximately twice the rate of comparable property in the regions of York, Peel and Durham. Similarly, the data in Table 1 show that the City of Toronto taxes industry about 33% ($1.89 divided by $1.42) higher than the average for all Metropolitan Toronto municipalities.

The data that are available therefore, support the generally held view that commercial and industrial property within Metropolitan Toronto is assessed

and taxed at a much higher rate than is commercial-industrial property in the surrounding regions, and that within Metropolitan Toronto, industrial property in the City of Toronto is taxed more than similar property in the other area municipalities in Metropolitan Toronto. Some of the reasons for the differing levels of property taxation are discussed below.

3. SOME EXPLANATIONS FOR THE RELATIVE RATES OF INDUSTRIAL PROPERTY TAXATION IN THE TORONTO AREA

There are a number of possible explanations for the discrepancies in rates of taxation on industry within Metropolitan Toronto and between Metropolitan Toronto and the surrounding regions. The general level of municipal services may differ and result in varying tax burdens. There are implicit assessment anomalies that explain some of the variance in relative industrial tax levels. Finally, the provincial per capita grant system does not recognize the significant commuter and transient population that Metropolitan Toronto services, which increases the property tax burden.

3.1 LEVELS OF SERVICES VS. LEVELS OF TAXATION

Analysis of municipal finance statistics in Ontario shows that the provision of higher levels of municipal services is closely related to higher rates of property taxation. Municipal spending per household is a general indicator of the service level provided by a municipality.

The spending per household on municipal services in Metropolitan Toronto compared with the other regions in Ontario is presented in Table 2. The regional data refers to all regions, not just those surrounding Metropolitan Toronto. Nevertheless, some general conclusions can be drawn from the data.

The Municipality of Metropolitan Toronto is a highly serviced area, when measured by spending per household on municipal services. Spending per household on municipal services was 35% higher in Metropolitan Toronto than it was in the regions.

TABLE 2

**MUNICIPAL REVENUE FUND SPENDING PER HOUSEHOLD
METROPOLITAN TORONTO AND REGIONS
1979**

Service Responsibility	Metropolitan Toronto	Regions
	($ per household)	
General Government	164	149
Protection	377	260
Transportation	506	329
Environment	267	241
Health and Social Services	336	246
Culture and Recreation	234	152
Planning and Development	32	44
Total	1,916	1,421

Source: Ministry of Intergovernmental Affairs, Local Government Finance in Ontario, 1979, Table 2-6, p.10.

The higher the level of service, as represented by municipal spending per household, the higher the general level is likely to be for municipal property taxation. In turn, the higher the general level of property taxation in a municipality, the higher the tax is likely to be on commercial and industrial property. The comparative level of property taxation in Metropolitan Toronto indeed mirrors the provision of a high service level, as is illustrated in Table 3.

TABLE 3

**AVERAGE GROSS RESIDENTIAL PROPERTY TAXES PER HOUSEHOLD
METROPOLITAN TORONTO AND REGIONS
1979**

	Metropolitan Toronto	Regions
	($ per household)	
Municipal Taxes	470	396
Municipal Charges	14	33
Sub-total	484	439
School Taxes	485	392
Total	969	821

Source: Ministry of Intergovernmental Affairs, Local Government Finance in Ontario, 1979, Table 5-12, p.33.

This table shows that the property taxes per household are higher in Metropolitan Toronto than are property taxes per household in the other regions of Ontario. In fact, in 1979, taxes per household were 18% greater in Metropolitan Toronto than in the regions. Given this fact, one can deduce that taxes on industry in Metropolitan Toronto should legitimately be 18%-20% higher than in the regions because of the services provided within Metropolitan Toronto, which are available to and enjoyed by the industries locating here.

Before leaving this section, it is important to note that the income per household is higher in Metropolitan Toronto than in the regions. Nevertheless, the property tax burden as a per cent of income is still greater in Metropolitan Toronto than in the regions. Metropolitan Toronto is a highly serviced area, but it must and does tax in order to provide these services. These data are presented in Table 4.

TABLE 4

RESIDENTIAL TAX BURDEN PER HOUSEHOLD
METROPOLITAN TORONTO AND REGIONS
1979

	Metropolitan Toronto	Regions
	($ per household)	
Property Tax per Household	969	821
Income per Household	28,200	25,400
Property Tax as a % of Income	3.4%	3.2%

Source: Ministry of Intergovernmental Affairs, Local Government Finance in Ontario, 1979, Table 5-13, p.35.

3.2 ASSESSMENT VALUES BY CLASS OF PROPERTY COMPARED TO MARKET VALUES OF PROPERTY

Complete reassessment in Metropolitan Toronto was last accomplished in 1953-54. In other municipalities, assessed values were determined in different base years.

Since the time of the last reassessment, in most if not all municipalities, different classes of property increased in value at different rates. For instance, the value of single family residences increased at a greater rate than did the value of rental multi-residential dwellings. This has resulted in different classes of property being assessed at different percentages of value, and thereby carrying different weights of taxation when compared to their respective market values.

The assessment appeal process was one mechanism that was available to realign assessments and maintain some correspondence between assessments and values of properties. Because the number of assessment appeals in the late 1960's was tending to erode the assessment base of municipalities, the provincial government imposed a legislated "assessment freeze" in 1970 pending a complete re-assessment of all property. The reassessment of all properties never occurred and the effectiveness of the mechanism that would have maintained some uniform correspondence between the assessment of classes of property and their corresponding market values was for the most part negated.

As a result, the industrial-commercial class of property is assessed at a different percentage of market value when compared to the residential class. More importantly for this study, the comparative weighting between the classes of property (i.e. assessed value as a proportion of market value) is different in each municipality within Metropolitan Toronto. Also, the weighting between the residential and commercial-

industrial class in Metropolitan Toronto municipalities is significantly different from the weighting in the municipalities surrounding Metropolitan Toronto.

For example, industry in Scarborough is assessed at 16% of market value, while residential single-family is assessed at slightly less than 8% of market value. In Markham, industries are assessed at 38% of market value and residential single-family is assessed at 32% of market value. This produces the consequence that industry is taxed at twice the relative rate of single-family residential in Scarborough, but across the road in Markham, industry is only taxed 20% higher than single-family residential.

The general pattern for the assessment of classes of property compared to their market values for the municipalities in the Toronto area is presented in Table 5. The first two columns show the assessed values by class as a per cent of market value for the selected municipalities. The final column is the relative weight of assessment that is placed on the industrial classification of property when compared to the single-family residential property.

In the City of Toronto, the industrial classification of property is assessed three times greater than the single-family residential when both are compared to their market values. This really would not present a problem if all municipalities showed the same relationship. However, Table 5 shows that industry in the other municipalities in Metropolitan Toronto have an assessment value to market value that is somewhat higher than, but roughly equivalent to, the comparable figure for single-family residential.

When a comparison is made between the average relationships within the Municipality of Metropolitan Toronto and the selected municipalities surrounding Metropolitan Toronto, the figures show that the municipalities within Metropolitan Toronto have their industrial

class of properties assessed, and therefore taxed, at a much greater rate compared to single-family residential than do the surrounding municipalities. In Metropolitan Toronto, the relative weight of industrial assessment is 160% higher than single-family residential, while the ratio for the selected municipalities surrounding Metropolitan Toronto shows that industry is assessed on average only 30% higher than single-family residential when both are compared to market values.

TABLE 5

ASSESSMENT AS A PERCENT OF MARKET VALUE
BY CLASS OF PROPERTY FOR SELECTED MUNICIPALITIES
IN THE TORONTO AREA: 1980

Municipality	Assessment as a % of Market Value		Industrial Ratio* as a % of Residential Ratio
	Residential	Industrial	
Toronto	6%	24%	400%
East York	7	16	230
Etobicoke	7	18	260
North York	8	15	190
Scarborough	8	16	200
York	7	19	270
Average	7%	18%	260%
Oshawa	15%	36%	240%
Ajax	36	53	150
Pickering	36	42	120
Whitby	8	11	140
Brampton	41	44	110
Caledon	31	44	140
Mississauga	42	47	110
Aurora	32	49	150
Markham	32	39	120
Newmarket	31	41	130
Richmond Hill	29	38	130
Vaughan	31	38	120
Average	30%	40%	130%

Source: Municipal Equalization Factors, 1980, Ministry of Revenue.

* The figures in these tables are rounded to show approximations only.

The consequence of these varying assessment practices is that the City of Toronto is placing a heavier load of property taxation on its industries than are the rest of the municipalities in Metropolitan Toronto. Also, there is a much heavier taxation load on industries in the Municipality of Metropolitan Toronto than there is in the surrounding municipalities. This factor gives the municipalities surrounding Metropolitan Toronto a competitive edge over the Municipality of Metropolitan Toronto for attracting industry. Similarly, the assessment process in the City of Toronto works to the detriment of the location of industry in the City of Toronto and favours the location of industry in the other municipalities in Metropolitan Toronto.

This anomaly in assessment practices is one more factor that contributes to the high per square footage figure for property taxation on industry in Metropolitan Toronto. It also explains why the taxation per square foot on industry in the City of Toronto is higher than the taxation of industry in the other area municipalities in Metropolitan Toronto.

3.3 THE PROVINCIAL GRANT SYSTEM

The Provincial Grant System provides revenue to the municipal sector. Transfers are made in the form of conditional and unconditional grants. The transfers made from the provincial government to Metropolitan Toronto and the other regions are shown in Table 6 on a per household basis.

TABLE 6

COMPOSITION OF MUNICIPAL REVENUE FUND REVENUES PER HOUSEHOLD 1979 METROPOLITAN TORONTO AND REGIONS

	Metropolitan Toronto	Regions
	(%)	(%)
Payments in Lieu	4.0	4.5
Ontario Grants:	14.9	18.4
Conditional	6.7	11.1
Unconditional	74.4	66.0
Taxation & Other Revenue		
TOTAL	100.0	100.0

Source: Ministry of Intergovernmental Affairs, Local Government Finance in Ontario, 1979, Table 2-11, p.15.

A review of this table shows that the revenue Metropolitan Toronto derives from conditional and unconditional grants is considerably less, on a per household basis, than the revenue provided by provincial grants to the other regions. The provincial grant system provides only 21.6% of the required revenue per household in Metropolitan Toronto, but provides 29.5% of required revenue in the rest of the regions.

This can be partly explained by the comparatively strong assessment base that exists in Metropolitan Toronto. Many of the conditional grants have assessment per capita measures in their entitlement formulas, to serve as proxies for financial equalization among municipalities. Metropolitan Toronto often does not qualify for the level of grant support claimed by other municipalities, on the basis of fairly crude equalization formulas.

However, the unconditional provincial grant system is based largely on straight per capita calculations. Metropolitan Toronto must provide services for a resident population but also provides municipal services to a comparatively large commuter and transient population. The per capita grant system considers only the resident or permanent population of Metropolitan Toronto for unconditional grant purposes.

When the amount of provincial grant support is less in a municipality than that provided on average to other municipalities property taxes, by definition, are usually higher. This represents another possible explanation for higher taxes generally in Metropolitan Toronto and higher property taxes per square foot in particular on industrial and commercial property in Metropolitan Toronto.

Metropolitan Toronto should seek to change the basis of allocation of unconditional grants so that less reliance is placed on per capita determinations and more emphasis is based on some measure of need, such as expenditure or mill rate increases. It should also be noted that per capita grants do not grow without growth in population, but municipal expenditures increase from inflation alone. Therefore, per capita grants, unless indexed, constantly decline in relative value.

4. SUMMARY AND CONCLUSIONS

The statistics reviewed support the contention that municipalities within Metropolitan Toronto tax industry at a much higher rate on a per square foot basis than do the municipalities surrounding Metropolitan Toronto. The 1980 figures from Table 1 show that the average tax on a specified industrial property in Metropolitan Toronto is $1.30 per square foot, while the same industrial property located in a municipality outside Metropolitan Toronto's boundaries averages $.60 per square foot of building. In other words, industry in Metropolitan Toronto is taxed over twice as heavily as industry in municipalities in immediate surrounding regions.

Furthermore, industry in the City of Toronto is taxed significantly higher on a per square footage basis than is industry in the other municipalities of Metropolitan Toronto. Within Metropolitan Toronto, the correspondence for levels of industrial taxation shows the City of Toronto taxation at approximately $1.90 per square foot while it is $1.30 per square foot in the other area municipalities. Industry in the City of Toronto is therefore taxed 40 to 50% higher than a comparable property in the other area municipalities.

A number of explanations for the respective levels of industrial taxation were reviewed in this paper. Firstly, municipalities in Metropolitan Toronto provide a higher level and range of general municipal services and infrastructure, as reflected in per capita spending on responsibilities, than do the municipalities surrounding Metropolitan Toronto. This in turn results in the level of taxation in Metropolitan Toronto being higher generally in all classes of property, including the industrial class of property.

The rate of property taxation on all classes of property is high in Metropolitan Toronto because of the range and quality of services provided in the municipality, as indicated by the significantly higher spending per household on municipal responsibilities in Metropolitan Toronto when compared with the same spending in the regions. Inasmuch as the taxes per square foot of building on industrial property in the Municipality of Metropolitan Toronto reflect this factor, then nothing is untoward in the assessment and taxation system.

Secondly, anomalies in the method of assessing produce the results that the industrial class of property within Metropolitan Toronto municipalities is assessed at a much higher level in relation to market values than is the residential class of property. The result is that Metropolitan Toronto municipalities place a much greater relative tax burden on the industrial-commercial assessment class than do other municipalities surrounding Metropolitan Toronto.

The use of Section 63 of The Assessment Act provides a method for equalizing assessment for property owners within classes of property in a municipality, but precludes adjustments in the total tax contribution of the class compared to all other classes. The problem that Metropolitan Toronto must address is that Section 63 establishes, in law, that various classes of property may be assessed at different percentages of market value, which is based on the ratios established for each class of property at the time of the Section 63 reassessment. With Section 63 implementation in more and more municipalities in the province, the different weighting of taxation on classes of property in municipalities will be lawful and very difficult to change. Some municipalities as a result will be bonusing industry, while some will be bonusing single-family residential. In any event, the property assessment and taxation system will not be neutral in terms of industrial location if property taxes are a significant factor in the decision.

The government of Ontario has recognized this problem and, through regulation, has required the use of a "residential discount factor" in most regions for the apportionment of regional and school board levies. The purpose of the residential discount factor is to substantially reduce the impact of these levies on residential assessment or, looked at in the context of this study, to shift more of the burden of taxation to industrial assessment in the rest of the province. Therefore, this measure should serve to mitigate the large discrepancies noted in the previous analysis of assessment practices between municipalities in Metropolitan Toronto and the municipalities surrounding Metropolitan Toronto.

However, no adjustments are made in the local portion of the mill rate, and it is questionable how accurately the mathematical calculation of the residential discount factor, and its subsequent application in practice, actually corrects the assessment anomalies noted. Based on the data supplied by the Toronto Area Industrial Development Board in Table 1, it would seem that assessment anomalies are an important contributing factor for explaining the differences that exist in industrial assessment and taxation between municipalities in Metropolitan Toronto and those municipalities surrounding Metropolitan Toronto.

If assessment is to remain neutral, in terms of industrial location among municipalities, then any reform measures for assessment and taxation must be province-wide. The industrial and commercial classes of assessments in all municipalities should be adjusted to the same percentage of residential assessment when both are related to market values. The long-term policy recommendations of the Municipality of Metropolitan Toronto for property assessment and tax reform should reflect this long-term requirement.

Thirdly, there is a large commuter and transient population served by Metropolitan Toronto. The per capita grant system ignores this fact and bases grant entitlement only on permanent population. Therefore, the level of grant support is less in Metropolitan Toronto than in the regions, and this results in taxes being higher.

Metropolitan Toronto also should pursue policies with respect to provincial grant reform that ensure a more equitable distribution of provincial grants that are based on some measure of need. The present extent of reliance on per capita formulas for provincial grant allocation is not equitable or desirable or in the long term interests of the municipal sector.

If property taxes are a significant factor in the decision on the location of industry, it must be concluded from this study that the Municipality of Metropolitan Toronto is at a considerable disadvantage when it comes to locating new industry in Metropolitan Toronto. Also, if property taxes are a

significant variable, then industry in Metropolitan Toronto may be encouraged to actually move to the municipalities surrounding Metropolitan Toronto in order to avoid taxes. Further study is necessary to determine the importance of property taxes as a factor influencing industrial-commercial location in the metropolitan area.

The possible explanations for higher industrial-commercial taxation in Metropolitan Toronto presented in this report are not intended to be all inclusive. Other factors also may be used to explain higher taxes. For example, the relatively high proportion of exempt assessment in Metropolitan Toronto undoubtedly affects the general level of taxation and the subsequent tax bill for industrial-commercial property. The factors discussed are not mutually exclusive either. The higher spending per capita may indicate higher service levels or it also may reflect a transient population that increases spending per household in Metropolitan Toronto. Any policy decisions resulting from the contents of this report must be carefully researched and analyzed before they are considered for implementation.

APPENDIX

THE MUNICIPALITY OF METROPOLITAN TORONTO

TAXABLE AND EXEMPT ASSESSMENT

1954 - 1980

Year	Residential	Commercial Industrial	Total Taxable	Exempt	Total
			($000's)		
1954	-	-	2,410,318	304,678	2,714,996
1959	1,967,862	1,505,188	3,473,050	496,007	3,969,057
1964	2,514,234	1,870,132	4,384,366	782,206	5,166,572
1969	3,051,001	2,273,994	5,324,995	1,246,234	6,571,229
1970*	3,190,828	2,422,193	5,613,021	1,308,656	6,921,677
1970*	3,148,218	2,369,717	5,517,935	1,335,405	6,853,340
1971	3,269,374	2,579,777	5,849,151	1,332,924	7,182,075
1972	3,323,761	2,652,044	5,975,805	1,405,889	7,381,694
1973	3,499,599	2,550,535	6,050,134	1,449,000	7,499,134
1974	3,565,078	2,684,799	6,249,877	1,479,757	7,729,634
1975	3,634,907	2,817,712	6,452,619	1,498,159	7,950,778
1976	3,692,943	2,988,410	6,681,353	1,514,730	8,196,083
1977	3,753,952	3,081,474	6,835,426	1,520,988	8,356,414
1978	3,877,263	3,144,137	7,021,400	1,551,422	8,572,822
1979	3,958,628	3,212,209	7,170,837	1,567,232	8,738,069
1980	4,057,370	3,278,357	7,335,727	1,579,354	8,915,081

Sources: 1954 - 1970 figures: Don Richmond and P.S. Ross & Partners, Metroplan: The Financial Structure of Metropolitan Toronto, February 1975 (Assessment for Metropolitan Levy)
1970 - 1980 figures: Area Municipal Financial Statements (Assessment for Local Taxation)

* There is a discontinuity in the data series in 1970; therefore the data were presented on both bases for that year.

APPENDIX
BOROUGH OF EAST YORK
TAXABLE AND EXEMPT ASSESSMENT
1954 - 1980

Year	Residential	Commercial Industrial	Total Taxable	Exempt	Total
			($000's)		
1954	-	-	142,965	9,964	152,929
1959	121,613	51,159	172,772	13,675	186,447
1964	141,357	63,352	204,709	21,466	226,175
1969	170,262	79,355	249,618	26,085	275,703
1970*	178,119	80,504	258,623	29,475	288,098
1970*	178,119	80,504	258,623	29,272	287,895
1971	181,513	84,175	265,684	27,570	293,254
1972	183,908	85,253	269,161	27,801	296,962
1973	189,494	76,796	266,290	28,520	294,810
1974	201,086	76,667	277,753	30,131	307,884
1975	200,039	79,400	279,439	29,947	309,386
1976	198,941	79,246	278,187	29,948	308,135
1977	199,857	77,786	277,643	29,908	307,551
1978	200,736	77,209	277,945	30,726	308,671
1979	201,908	76,031	277,939	30,033	307,972
1980	202,163	76,569	278,732	33,534	312,266

Sources: 1954 - 1970 figures: Don Richmond and P.S. Ross & Partners,
Metroplan: The Financial Structure of Metropolitan Toronto, February 1975
(Assessment for Metropolitan Levy)
1970 - 1980 figures: Area Municipal Financial Statements
(Assessment for Local Taxation)

* There is a discontinuity in the data series in 1970; therefore the data were presented on both bases for that year.

APPENDIX
BOROUGH OF ETOBICOKE
TAXABLE AND EXEMPT ASSESSMENT
1954 - 1980

Year	Residential	Commercial Industrial	Total Taxable	Exempt	Total
			($000's)		
1954	-	-	211,674	17,367	229,041
1959	277,299	160,872	438,171	38,174	476,345
1964	395,524	242,186	637,710	75,526	713,236
1969	486,304	327,545	813,849	118,331	932,180
1970*	496,833	351,722	848,555	123,674	972,229
1970*	496,833	351,722	848,555	129,983	978,538
1971	514,089	389,342	903,431	121,390	1,024,821
1972	519,871	411,579	931,450	141,539	1,072,989
1973	535,958	399,913	935,871	143,675	1,079,546
1974	553,416	423,323	976,739	141,080	1,117,819
1975	564,473	457,817	1,022,290	164,973	1,187,263
1976	574,136	470,453	1,044,589	168,994	1,213,583
1977	582,072	481,637	1,063,709	167,058	1,230,767
1978	595,131	481,910	1,077,041	173,455	1,250,496
1979	604,413	491,673	1,096,086	173,800	1,269,886
1980	609,281	502,744	1,112,025	175,884	1,287,909

Sources: 1954 - 1970 figures: Don Richmond and P.S. Ross & Partners, Metroplan: The Financial Structure of Metropolitan Toronto, February 1975 (Assessment for Metropolitan Levy)
1970 - 1980 figures: Area Municipal Financial Statements (Assessment for Local Taxation)

* There is a discontinuity in the data series in 1970; therefore the data were presented on both bases for that year.

APPENDIX
CITY OF NORTH YORK
TAXABLE AND EXEMPT ASSESSMENT
1954 - 1980

Year	Residential	Commercial Industrial	Total Taxable	Exempt	Total
			($000's)		
1954	-	-	204,504	43,520	248,024
1959	352,821	122,723	475,544	64,959	540,503
1964	572,043	214,074	786,117	116,069	902,186
1969	793,184	354,589	1,147,773	236,476	1,384,249
1970*	865,624	390,673	1,256,297	252,699	1,508,996
1970*	865,624	390,673	1,256,297	256,373	1,512,670
1971	899,080	472,453	1,371,533	257,392	1,628,925
1972	916,716	494,547	1,411,263	261,188	1,672,451
1973	967,022	486,471	1,453,493	260,622	1,714,115
1974	1,010,230	522,033	1,532,263	266,967	1,799,230
1975	1,021,010	563,285	1,584,295	240,062	1,824,357
1976	1,022,929	594,380	1,617,309	247,446	1,864,755
1977	1,039,151	617,381	1,656,532	248,710	1,905,242
1978	1,057,640	627,384	1,685,024	255,646	1,940,670
1979	1,079,754	645,352	1,725,106	263,533	1,988,639
1980	1,098,195	663,733	1,761,928	263,891	2,025,819

Sources: 1954 - 1970 figures: Don Richmond and P.S. Ross & Partners, Metroplan: The Financial Structure of Metropolitan Toronto, February 1975 (Assessment for Metropolitan Levy)
1970 - 1980 figures: Area Municipal Financial Statements (Assessment for Local Taxation)

* There is a discontinuity in the data series in 1970; therefore the data were presented on both bases for that year.

APPENDIX

BOROUGH OF SCARBOROUGH

TAXABLE AND EXEMPT ASSESSMENT

1954 - 1980

Year	Residential	Commercial Industrial	Total Taxable	Exempt	Total
			($000's)		
1954	-	-	125,960	10,086	136,046
1959	235,900	90,077	325,977	31,210	357,187
1964	336,225	140,681	476,906	65,124	542,030
1969	416,750	207,247	623,997	118,685	742,682
1970*	451,503	218,082	669,585	132,987	802,572
1970*	444,694	215,606	660,300	137,450	797,750
1971	465,567	241,415	706,982	143,185	850,167
1972	480,492	246,590	727,082	152,681	879,763
1973	500,929	242,444	743,373	148,308	891,681
1974	535,005	267,912	802,917	131,792	934,709
1975	559,354	283,851	843,205	135,573	978,778
1976	585,238	305,837	891,075	141,054	1,032,129
1977	606,661	323,615	930,276	145,969	1,076,245
1978	635,964	336,535	972,499	152,294	1,124,793
1979	673,579	350,846	1,024,425	153,923	1,178,348
1980	713,904	371,142	1,085,046	154,750	1,239,796

Sources: 1954 - 1970 figures: Don Richmond and P.S. Ross & Partners, Metroplan: The Financial Structure of Metropolitan Toronto, February 1975 (Assessment for Metropolitan Levy)
1970 - 1980 figures: Area Municipal Financial Statements (Assessment for Local Taxation)

* There is a discontinuity in the data series in 1970; therefore the data were presented on both bases for that year.

APPENDIX
BOROUGH OF YORK
TAXABLE AND EXEMPT ASSESSMENT
1954 - 1980

Year	Residential	Commercial Industrial	Total Taxable	Exempt	Total
			($000's)		
1954	-	-	174,941	12,201	187,142
1959	158,643	69,325	227,968	17,832	245,800
1964	174,897	81,381	256,278	28,847	285,125
1969	187,401	94,357	281,758	42,794	324,552
1970*	193,183	96,067	289,250	42,639	331,889
1970*	193,183	96,067	289,250	42,904	332,154
1971	196,707	100,951	297,658	44,020	341,678
1972	198,794	99,060	297,854	46,331	344,185
1973	203,961	93,082	297,043	47,935	344,978
1974	208,549	92,466	301,015	47,791	348,806
1975	210,298	93,648	303,946	48,785	352,731
1976	208,341	92,497	300,838	55,856	356,694
1977	211,627	91,967	303,594	56,278	359,872
1978	213,279	91,387	304,666	56,640	361,306
1979	215,968	90,179	306,147	57,311	363,458
1980	216,842	89,696	306,538	57,852	364,390

Sources: 1954 - 1970 figures: Don Richmond and P.S. Ross & Partners, Metroplan: The Financial Structure of Metropolitan Toronto, February 1975 (Assessment for Metropolitan Levy)
1970 - 1980 figures: Area Municipal Financial Statements (Assessment for Local Taxation)
* There is a discontinuity in the data series in 1970; therefore the data were presented on both bases for that year.

APPENDIX
CITY OF TORONTO
TAXABLE AND EXEMPT ASSESSMENT
1954 - 1980

Year	Residential	Commercial Industrial	Total Taxable	Exempt	Total
			($000's)		
1954	-	-	1,550,274	238,993	1,789,267
1959	821,588	1,011,033	1,832,621	330,156	2,162,777
1964	894,188	1,128,460	2,022,648	475,173	2,497,821
1969	997,100	1,210,901	2,208,001	703,863	2,911,864
1970*	1,005,566	1,235,145	2,240,711	728,182	2,968,893
1970*	969,765	1,235,145	2,204,910	739,423	2,944,333
1971	1,012,418	1,291,445	2,303,863	739,367	3,043,230
1972	1,023,980	1,315,585	2,338,995	776,349	3,115,344
1973	1,102,235	1,251,829	2,354,064	819,940	3,174,004
1974	1,056,792	1,302,398	2,359,190	861,996	3,221,186
1975	1,079,733	1,339,711	2,419,444	878,819	3,298,263
1976	1,103,358	1,445,599	2,549,355	871,432	3,420,787
1977	1,114,584	1,489,088	2,603,672	873,065	3,476,737
1978	1,174,513	1,529,712	2,704,225	882,661	3,586,886
1979	1,183,006	1,558,128	2,741,134	888,632	3,629,766
1980	1,216,985	1,574,474	2,791,459	893,443	3,684,902

Sources: 1954 - 1970 figures: Don Richmond and P.S. Ross & Partners, Metroplan: The Financial Structure of Metropolitan Toronto, February 1975 (Assessment for Metropolitan Levy)
1970 - 1980 figures: Area Municipal Financial Statements (Assessment for Local Taxation)

* There is a discontinuity in the data series in 1970; therefore the data were presented on both bases for that year.

RECONCILIATION OF EXEMPT ASSESSMENT DATA

Sources: Area Municipal Financial Statements 1970 - 1980
Ministry of Revenue

Problem: When using statistics from the Municipal Financial Statements, the data on exempt assessment contained aberrations that could not be explained.

The Ministry of Revenue, when contacted, indicated that the data was incorrect and provided new figures.

	Financial Statements	Ministry Correction
	($000's)	
East York		
1973	27,484	28,520
1974	30,009	30,131
1975	30,009	29,947
North York		
1975	238,481	240,062
1976	272,650	247,446
1977	279,072	248,710
1978	263,533	255,646
Scarborough		
1973	149,394	148,308
1974	188,955	131,792
1975	132,253	135,573
1979	152,879	153,923
1980	153,923	154,750
York		
1977	42,016	56,278
1978	56,122	56,640

POOR

QUALITY

ORIGINAL